招銀国际 CMB INTERNATIONAL
招商银行全资附属机构 A Wholly Owned Subsidiary Of China Merchants Bank

Mindray (300760 CH)

Expect domestic business to rebound from 2025

BUY (Maintain)

Target Price	**RMB328.81**
(Previous	RMB352.84)
Up/Downside	**21.6%**
Current Price	**RMB270.50**

China Healthcare

Jill WU, CFA
(852) 3900 0842
jillwu@cmbi.com.hk

Cathy WANG
(852) 3916 1729
cathywang@cmbi.com.hk

Mindray reported 9M24 revenue of RMB29.5bn, up by 8.0% YoY. Attributable net profit increased by 8.2% YoY to RMB10.6bn. Revenue in 3Q24 grew by 1.4% YoY to RMB9.0bn while attributable net profit decreased by 9.3% YoY to RMB3.1bn. The slowdown in revenue growth can primarily be attributed to lackluster procurement activities in domestic public hospitals and weakened demand for IVD testing, particularly in lower-tier hospitals. Consequently, Mindray's domestic revenue fell by 9.7% YoY in 3Q24. Additionally, GPM in 3Q24 decreased by 4.8pcts QoQ due to updates in accounting guidelines.

- **Domestic market remained under pressure, although signs of recovery in procurement are emerging.** 1) IVD: Domestic revenue grew by 17% YoY in 9M24. Nationwide DRG implementation had a negative impact on the diagnosis demand in lower-tier hospitals which were the main contributors to Mindray's domestic IVD revenue. To counter act this, Mindray actively expanded its IVD business into top hospitals through its TLA and IT solutions. We expect Mindray to install over 150 TLAs in 2024E. 2) MIS: Domestic revenue grew by over 10% YoY in 9M24 driven by the strong volume ramp-up of ultra-high-end Resona A20 ultrasound system. 3) PMLS: Domestic revenue decreased by 28% YoY in 9M24. The decline was influenced by constrained hospital funding amid a challenging macroeconomic environment. However, with accelerated issuance of special bonds, and stronger government support to address local debt issues, we expect domestic equipment demand to recover in 2025E.
- **Healthy growth in overseas business.** In 3Q24, Mindray's overseas revenue increased by 18.6% YoY with strong performances in Europe (+29% YoY), APAC (+32% YoY) and LatAm (+25% YoY), although there was some weakness in the US market. Driven by breakthroughs in medium-to-large volume labs, Mindray's overseas IVD revenue increased by 32% YoY in 9M24, accounting for 28% of total overseas revenue. Mindray has accelerated its overseas localization efforts. As of 3Q24, Mindray launched local manufacturing in 9 countries, 8 of which are related to IVD. Additionally, emerging businesses such as minimally invasive surgery (+50+% YoY), AED (+50+% YoY) and animal medical (+30+% YoY) grew significantly in 9M24. These emerging businesses contributed over 10% to Mindray's overseas revenue. We expect IVD and emerging businesses to become the primary growth drivers for Mindray's overseas businesses.
- **Maintain BUY.** We lowered our earnings forecasts with target price adjusted to RMB 328.81 (WACC: 9.3%, terminal growth rate: 3.0%).

Stock Data

Mkt Cap (RMB mn)	336,690.3
Avg 3 mths t/o (RMB mn)	1,985.6
52w High/Low (RMB)	324.50/222.34
Total Issued Shares (mn)	1209.9

Source: FactSet

Shareholding Structure

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

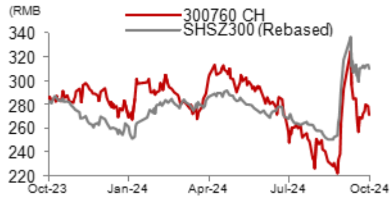
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-7.7%	-5.5%
3-mth	9.0%	-6.4%
6-mth	-11.2%	-18.4%

Source: FactSet

12-mth Price Performance



Source: FactSet

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	30,366	34,932	37,417	43,583	49,698
YoY growth (%)	20.2	15.0	7.1	16.5	14.0
Attributable net profit (RMB mn)	9,607	11,582	12,826	14,728	16,828
YoY growth (%)	20.1	20.6	10.7	14.8	14.3
Adjusted net profit (RMB mn)	9,525	11,434	12,742	14,645	16,745
EPS (Adjusted) (RMB)	7.87	9.44	10.51	12.08	13.82
Adjusted P/E (x)	34.4	28.7	25.7	22.4	19.6
Net gearing (%)	(72.5)	(56.3)	(43.7)	(50.2)	(55.7)

Source: Company data, Bloomberg, CMBIGM estimates

Figure 1: Earnings revision

RMB mn	New FY24E	New FY25E	New FY26E	Old FY24E	Old FY25E	Old FY26E	Diff (%) FY24E	Diff (%) FY25E	Diff (%) FY26E
Revenue	37,417	43,583	49,698	40,612	48,807	57,440	-7.87%	-10.70%	-13.48%
Gross profit	24,173	28,275	32,451	27,011	32,632	38,522	-10.51%	-13.35%	-15.76%
Operating profit	14,915	17,369	19,983	15,928	19,150	22,578	-6.36%	-9.30%	-11.49%
Net profit	12,826	14,728	16,828	13,727	16,313	19,137	-6.57%	-9.72%	-12.07%
EPS (RMB)	10.58	12.15	13.88	11.32	13.45	15.78	-6.57%	-9.72%	-12.07%
Gross margin	64.60%	64.88%	65.30%	66.51%	66.86%	67.06%	-1.9ppt	-1.98ppt	-1.77ppt
Operating margin	39.86%	39.85%	40.21%	39.22%	39.24%	39.31%	+0.64ppt	+0.62ppt	+0.9ppt
Net margin	34.28%	33.79%	33.86%	33.80%	33.42%	33.32%	+0.48ppt	+0.37ppt	+0.54ppt

Source：Company data, Bloomberg, CMBIGM estimates

Figure 2: Risk-adjusted DCF valuation

DCF Valuation (in RMB mn)	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E
EBIT	14,510	16,932	19,430	22,255	25,324	28,623	32,314	36,505	41,175
Tax rate	11.00%	11.00%	11.00%	11.00%	11.00%	11.00%	11.00%	11.00%	11.00%
EBIT*(1-tax rate)	12,914	15,069	17,293	19,807	22,538	25,475	28,760	32,490	36,646
+ D&A	1,144	1,269	1,372	1,457	1,523	1,574	1,610	1,634	1,645
- Change in working capital	-601	-417	-760	-858	-941	-1,021	-1,137	-1,263	-1,397
- Capex	-7,936	-1,678	-1,578	-1,478	-1,378	-1,278	-1,178	-1,078	-978
FCFF	**5,521**	**14,242**	**16,327**	**18,927**	**21,742**	**24,749**	**28,055**	**31,782**	**35,916**
Terminal value									**588,360**

Terminal growth rate	**3.0%**
WACC	**9.3%**
Cost of Equity	12.0%
Cost of Debt	5.0%
Equity Beta	0.95
Risk Free Rate	2.5%
Market Risk Premium	10.0%
Target Debt to Asset ratio	35.0%
Effective Corporate Tax Rate	15.0%

Terminal value	264,551
Total PV	382,608
Net debt	-16,714
Minority	656
Equity value	398,665
# of shares (mn)	1,212
DCF per share (in RMB)	**328.81**

Source：CMBIGM estimates

Figure 3: Sensitivity analysis

		WACC				
		8.3%	**8.8%**	**9.3%**	**9.8%**	**10.3%**
	4.0%	466.66	414.65	372.60	337.91	308.83
	3.5%	428.50	384.83	348.81	318.63	292.98
Terminal growth rate	**3.0%**	397.55	360.15	**328.81**	302.18	279.30
	2.5%	371.96	339.41	311.76	288.00	267.37
	2.0%	350.43	321.71	297.04	275.63	256.89

Source：CMBIGM estimates

Figure 4: CMBIGM estimates vs consensus

	CMBIGM			Consensus			Diff (%)		
RMB mn	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	37,417	43,583	49,698	40,541	48,027	56,727	-7.71%	-9.25%	-12.39%
Gross profit	24,173	28,275	32,451	26,784	31,782	37,573	-9.75%	-11.03%	-13.63%
Operating profit	14,915	17,369	19,983	15,139	18,069	21,439	-1.48%	-3.87%	-6.79%
Net profit	12,826	14,728	16,828	13,669	16,282	19,337	-6.17%	-9.55%	-12.98%
EPS (RMB)	10.58	12.15	13.88	11.31	13.43	15.93	-6.50%	-9.56%	-12.87%
Gross margin	64.60%	64.88%	65.30%	66.07%	66.18%	66.24%	-1.46ppt	-1.3ppt	-0.94ppt
Operating margin	39.86%	39.85%	40.21%	37.34%	37.62%	37.79%	+2.52ppt	+2.23ppt	+2.42ppt
Net margin	34.28%	33.79%	33.86%	33.72%	33.90%	34.09%	+0.56ppt	-0.11ppt	-0.23ppt

Source：Company data, Bloomberg, CMBIGM estimate

Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Revenue	**25,270**	**30,366**	**34,932**	**37,417**	**43,583**	**49,698**
Cost of goods sold	(8,843)	(10,885)	(11,821)	(13,244)	(15,308)	(17,246)
Gross profit	**16,427**	**19,480**	**23,111**	**24,173**	**28,275**	**32,451**
Operating expenses	**(7,825)**	**(8,941)**	**(10,170)**	**(9,645)**	**(11,293)**	**(12,855)**
Selling expense	(3,999)	(4,802)	(5,703)	(4,677)	(5,448)	(6,212)
Admin expense	(1,106)	(1,320)	(1,524)	(1,534)	(1,778)	(2,018)
R&D expense	(2,524)	(2,923)	(3,433)	(3,368)	(3,966)	(4,572)
Gain/loss on financial assets at FVTPL	10	(21)	79	0	0	0
Investment gain/loss	1	(5)	(10)	0	0	0
Other gains/(losses)	453	478	60	387	387	387
Others	(196)	103	489	(66)	(101)	(53)
Operating profit	**9,066**	**10,991**	**13,070**	**14,915**	**17,369**	**19.983**
Others	(49)	(37)	(59)	(59)	(59)	(59)
Pre-tax profit	**9,017**	**10,954**	**13,011**	**14,856**	**17,310**	**19,924**
Income tax	(1,013)	(1,343)	(1,433)	(1,634)	(1,904)	(2,192)
Minority interest	(2)	(4)	4	(396)	(679)	(905)
Net profit	**8,004**	**9,611**	**11,578**	**13,222**	**15,406**	**17,732**
Adjusted net profit	**7,850**	**9,525**	**11,434**	**12,742**	**14,645**	**16,745**
Gross dividends	4,252	5,456	7,032	8,923	10,685	12,631

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Current assets	**21,335**	**30,606**	**26,875**	**25,807**	**31,872**	**39,161**
Cash & equivalents	15,361	23,186	18,787	16,723	22,100	28,204
Account receivables	1,790	2,661	3,297	3,191	3,717	4,238
Inventories	3,565	4,025	3,979	5,080	5,242	5,906
Prepayment	238	289	268	268	268	268
Other current assets	380	445	545	545	545	545
Non-current assets	**16,768**	**16,139**	**21,065**	**27,412**	**27,377**	**27,139**
PP&E	3,772	4,261	5,490	6,851	7,987	8,920
Deferred income tax	596	755	1,313	1,313	1,313	1,313
Intangibles	2,061	1,977	2,225	1,841	1,457	1,073
Goodwill	4,218	4,403	5,062	11,147	11,147	11,147
Other non-current assets	6,120	4,743	6,976	6,260	5,473	4,685
Total assets	**38,103**	**46,745**	**47,940**	**53,219**	**59,249**	**66,300**
Current liabilities	**8,629**	**11,770**	**10,103**	**10,496**	**10,767**	**11,192**
Short-term borrowings	0	0	8	8	8	8
Account payables	2,281	2,291	2,690	3,084	3,355	3,780
Tax payable	474	573	653	653	653	653
Other current liabilities	5,874	8,906	6,751	6,751	6,751	6,751
Non-current liabilities	**2,506**	**2,976**	**4,491**	**4,491**	**4,491**	**4,491**
Long-term borrowings	0	0	1	1	1	1
Deferred income	105	93	109	109	109	109
Other non-current liabilities	2,401	2,883	4,381	4,381	4,381	4,381
Total liabilities	**11,135**	**14,746**	**14,594**	**14,988**	**15,259**	**15,684**
Share capital	1,216	1,212	1,212	1,212	1,212	1,212
Capital surplus	608	608	608	608	608	608
Other reserves	25,129	30,161	31,265	35,754	40,835	46,557
Total shareholders equity	**26,953**	**31,981**	**33,085**	**37,574**	**42,656**	**48,377**
Minority interest	15	18	261	656	1,335	2,240
Total equity and liabilities	**38,103**	**46,745**	**47,940**	**53,219**	**59,249**	**66,300**

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	**9,017**	**10,954**	**13,011**	**14,856**	**17,310**	**19,924**
Depreciation & amortization	717	911	1,039	1,144	1,269	1,372
Tax paid	(1,013)	(1,343)	(1,433)	(1,634)	(1,904)	(2,192)
Change in working capital	328	1,524	(1,652)	(601)	(417)	(1760)
Others	(50)	96	96	99	65	(49)
Net cash from operations	**8,999**	**12,141**	**11,062**	**13,863**	**16,323**	**18,295**
Investing						
Capital expenditure	(1,402)	(1,916)	(2,689)	(2,000)	(1,900)	(1,800)
Acquisition of subsidiaries/ investments	(3,520)	0	(871)	(6,157)	0	0
Net proceeds from disposal of short-term investments	0	0	0	200	200	200
Others	110	(1,304)	2,867	22	22	22
Net cash from investing	**(4,812)**	**(3,220)**	**(693)**	**(7,936)**	**(1,678)**	**(1,578)**
Financing						
Dividend paid	(3,039)	(4,233)	(10,670)	(7,991)	(9,268)	(10,613)
Net borrowings	(441)	0	(19)	0	0	0
Proceeds from share issues	0	0	79	0	0	0
Others	(1,125)	(961)	(166)	0	0	0
Net cash from financing	**(4,605)**	**(5,194)**	**(10,776)**	**(7,991)**	**(9,268)**	**(10,613)**
Net change in cash						
Cash at the beginning of the year	15,723	15,133	18,974	18,787	16,723	22,100
Exchange difference	(171)	114	101	0	0	0
Cash at the end of the year	**15,133**	**18,974**	**16,723**	**22,100**	**28,204**	**16,723**

GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Revenue	20.2%	20.2%	15.0%	7.1%	16.5%	14.0%
Gross profit	20.3%	18.6%	18.6%	4.6%	17.0%	14.8%
Operating profit	21.6%	21.2%	18.9%	14.1%	16.5%	15.0%
Net profit	20.2%	20.1%	20.5%	14.2%	16.5%	15.1%
Adj. net profit	20.0%	21.3%	20.0%	11.4%	14.9%	14.3%

PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Gross profit margin	65.0%	64.2%	66.2%	64.6%	64.9%	65.3%
Operating margin	35.9%	36.2%	37.4%	39.9%	39.9%	40.2%
Adj. net profit margin	31.1%	31.4%	32.7%	34.1%	33.6%	33.7%
Return on equity (ROE)	29.7%	30.0%	34.7%	34.6%	35.0%	35.0%

GEARING/LIQUIDITY/ACTIVITIES	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Net debt to equity (x)	(0.6)	(0.7)	(0.6)	(0.4)	(0.5)	(0.6)
Current ratio (x)	2.5	2.6	2.7	2.5	3.0	3.5
Receivable turnover days	24.0	26.8	31.1	31.1	31.1	31.1
Inventory turnover days	146.7	127.3	123.6	140.0	125.0	125.0
Payable turnover days	78.0	76.6	76.9	85.0	80.0	80.0

VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
P/E	41.1	34.1	28.3	25.6	22.3	19.5
Adjusted P/E	41.9	34.4	28.7	25.7	22.4	19.6
P/B	12.2	10.2	9.9	8.7	7.7	6.8
EV/sales	12.4	10.0	8.9	8.3	7.0	6.1
EV/EBITDA	32.4	26.7	23.4	19.9	16.9	14.5
EV/EBIT	35.0	29.0	25.4	21.5	18.1	15.5
Div yield (%)	1.3	1.7	2.1	2.5	2.9	3.4

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

Disclosures & Disclaimers

Analyst Certification

The research analyst who is primary responsible for the content of this research report, in whole or in part, certifies that with respect to the securities or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about the subject securities or issuer; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific views expressed by that analyst in this report.
Besides, the analyst confirms that neither the analyst nor his/her associates (as defined in the code of conduct issued by The Hong Kong Securities and Futures Commission) (1) have dealt in or traded in the stock(s) covered in this research report within 30 calendar days prior to the date of issue of this report; (2) will deal in or trade in the stock(s) covered in this research report 3 business days after the date of issue of this report; (3) serve as an officer of any of the Hong Kong listed companies covered in this report; and (4) have any financial interests in the Hong Kong listed companies covered in this report.

CMBIGM Ratings

BUY	: Stock with potential return of over 15% over next 12 months
HOLD	: Stock with potential return of +15% to -10% over next 12 months
SELL	: Stock with potential loss of over 10% over next 12 months
NOT RATED	: Stock is not rated by CMBIGM
OUTPERFORM	: Industry expected to outperform the relevant broad market benchmark over next 12 months
MARKET-PERFORM	: Industry expected to perform in-line with the relevant broad market benchmark over next 12 months
UNDERPERFORM	: Industry expected to underperform the relevant broad market benchmark over next 12 months

CMB International Global Markets Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888   Fax: (852) 3900 0800

CMB International Global Markets Limited ("CMBIGM") is a wholly owned subsidiary of CMB International Capital Corporation Limited (a wholly owned subsidiary of China Merchants Bank)

Important Disclosures

There are risks involved in transacting in any securities. The information contained in this report may not be suitable for the purposes of all investors. CMBIGM does not provide individually tailored investment advice. This report has been prepared without regard to the individual investment objectives, financial position or special requirements. Past performance has no indication of future performance, and actual events may differ materially from that which is contained in the report. The value of, and returns from, any investments are uncertain and are not guaranteed and may fluctuate as a result of their dependence on the performance of underlying assets or other variable market factors. CMBIGM recommends that investors should independently evaluate particular investments and strategies, and encourages investors to consult with a professional financial advisor in order to make their own investment decisions.
This report or any information contained herein, have been prepared by the CMBIGM, solely for the purpose of supplying information to the clients of CMBIGM or its affiliate(s) to whom it is distributed. This report is not and should not be construed as an offer or solicitation to buy or sell any security or any interest in securities or enter into any transaction. Neither CMBIGM nor any of its affiliates, shareholders, agents, consultants, directors, officers or employees shall be liable for any loss, damage or expense whatsoever, whether direct or consequential, incurred in relying on the information contained in this report. Anyone making use of the information contained in this report does so entirely at their own risk.
The information and contents contained in this report are based on the analyses and interpretations of information believed to be publicly available and reliable. CMBIGM has exerted every effort in its capacity to ensure, but not to guarantee, their accuracy, completeness, timeliness or correctness. CMBIGM provides the information, advices and forecasts on an "AS IS" basis. The information and contents are subject to change without notice. CMBIGM may issue other publications having information and/ or conclusions different from this report. These publications reflect different assumption, point-of-view and analytical methods when compiling. CMBIGM may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.
CMBIGM may have a position, make markets or act as principal or engage in transactions in securities of companies referred to in this report for itself and/or on behalf of its clients from time to time. Investors should assume that CMBIGM does or seeks to have investment banking or other business relationships with the companies in this report. As a result, recipients should be aware that CMBIGM may have a conflict of interest that could affect the objectivity of this report and CMBIGM will not assume any responsibility in respect thereof. This report is for the use of intended recipients only and this publication, may not be reproduced, reprinted, sold, redistributed or published in whole or in part for any purpose without prior written consent of CMBIGM.
Additional information on recommended securities is available upon request.

For recipients of this document in the United Kingdom
This report has been provided only to persons (I)falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended from time to time)("The Order") or (II) are persons falling within Article 49(2) (a) to (d) ("High Net Worth Companies, Unincorporated Associations, etc.,) of the Order, and may not be provided to any other person without the prior written consent of CMBIGM.

For recipients of this document in the United States
CMBIGM is not a registered broker-dealer in the United States. As a result, CMBIGM is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. The research analyst who is primary responsible for the content of this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA"). The analyst is not subject to applicable restrictions under FINRA Rules intended to ensure that the analyst is not affected by potential conflicts of interest that could bear upon the reliability of the research report. This report is intended for distribution in the United States solely to "major US institutional investors", as defined in Rule 15a-6 under the US, Securities Exchange Act of 1934, as amended, and may not be furnished to any other person in the United States. Each major US institutional investor that receives a copy of this report by its acceptance hereof represents and agrees that it shall not distribute or provide this report to any other person. Any U.S. recipient of this report wishing to effect any transaction to buy or sell securities based on the information provided in this report should do so only through a U.S.-registered broker-dealer.

For recipients of this document in Singapore
This report is distributed in Singapore by CMBI (Singapore) Pte. Limited (CMBISG) (Company Regn. No. 201731928D), an Exempt Financial Adviser as defined in the Financial Advisers Act (Cap. 110) of Singapore and regulated by the Monetary Authority of Singapore. CMBISG may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, as defined in the Securities and Futures Act (Cap. 289) of Singapore, CMBISG accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact CMBISG at +65 6350 4400 for matters arising from, or in connection with the report.