

INT Medical (1501 HK)

Solid growth with margin improvement

INT Medical's 2024 revenue grew by 13.2% YoY to RMB852mn, 13% below our estimate, mainly due to the pressure on its CDMO business from VBP and intensified competition. The expanding provincial VBP coverage in interventional medical devices drove manufacturers to integrate upstream operations to manage costs. Thanks to the improved gross margin, the Company's attributable net profit in 2024 increased by 22.7% YoY to RMB192mn, with attributable net profit margin rising by 1.7 ppts.

■ **Significant gross margin improvement.** In 2024, INT Medical's gross margin rose by 5 ppts to 63.1%, primarily driven by enhanced capacity utilization and increased automation. Production facilities in Shanghai and Zhuhai commenced operations in mid-2023 and late 2023, respectively. Continued capacity expansion in these two facilities and increased sales volume post-VBP have reduced unit costs. Furthermore, INT Medical implemented cost-reduction and efficiency-enhancement measures, including process optimization and raw material negotiations. We estimate that revenue from VBP products accounted for approximately 30% of domestic revenue in 2024. We think the negative impact of VBP on gross margin should be limited. With rising automation levels, we expect INT Medical's gross margin to remain stable.

■ **Positive outlook for overseas sales.** As of end-2024, INT Medical has broadened its overseas customer base to 281 (vs. 226 in 2023) spanning over 86 countries and regions (vs. 77 in 2023), with 27 CE-certified products and 25 FDA-approved products. In 2024, the overall overseas revenue grew by 24.2% YoY to RMB253mn, representing 29.6% (+2.6 ppts) of the Company's total sales. Notably, markets outside the US and Europe, which contributed 17% of total revenue, maintained strong growth. Overseas revenue from markets outside the US and Europe, excluding agent export business (委托出口业务), surged by 31.7% YoY. We expect INT Medical will maintain its robust growth momentum in the overseas market in 2025E.

■ **Maintain BUY.** We expect solid revenue growth for INT Medical in 2025E, with revenue and attributable net profit up by 20.4% YoY and 7.5% YoY respectively. We revised our earnings forecast to reflect the Company's moderated growth in its CDMO business and consistent investment in R&D and business expansion. We derive a TP at HK\$33.68 based on a 9-year DCF model (terminal growth rate: 2.0%, WACC: 10.73%).

Earnings Summary

(YE 31 Dec)	FY23A	FY24A	FY25E	FY26E	FY27E
Revenue (RMB mn)	753	852	1,025	1,225	1,398
YoY growth (%)	28.5	13.2	20.4	19.5	14.1
Attributable net profit (RMB mn)	156	192	206	245	280
YoY growth (%)	18.8	22.7	7.5	18.7	14.4
EPS (Reported) (RMB)	0.92	1.10	1.17	1.39	1.59
YoY growth (%)	16.3	20.1	6.6	18.7	14.3
P/E (x)	27.4	22.8	21.4	18.0	15.8
P/B (x)	2.5	2.3	2.2	2.0	1.7
ROE (%)	9.7	11.1	10.9	11.5	11.7
Net gearing (%)	(27.3)	(30.9)	(8.6)	(14.0)	(19.6)

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	HK\$33.68
(Previous TP	HK\$35.04)
Up/Downside	25.0%
Current Price	HK\$26.95

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Stock Data

Mkt Cap (HK\$ mn)	4,743.2
Avg 3 mths t/o (HK\$ mn)	1.1
52w High/Low (HK\$)	31.95/25.25
Total Issued Shares (mn)	176.0

Source: FactSet

Shareholding Structure

Kindly Holding	25.5%
Huaige Health Investment	8.8%

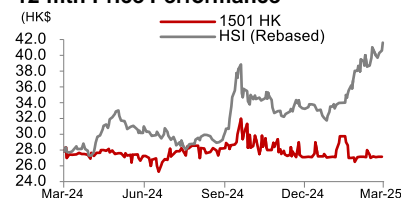
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-0.6%	-7.9%
3-mth	-0.6%	-20.7%
6-mth	-4.6%	-30.6%

Source: FactSet

12-mth Price Performance



Source: FactSet

Figure 1: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Revenue	1,025	1,225	1,398	1,282	1,664	NA	-20.0%	-26.4%	NA
Gross profit	636	754	856	731	949	NA	-13.0%	-20.6%	NA
Operating profit	235	279	318	272	347	NA	-13.6%	-19.7%	NA
Net profit	206	245	280	260	331	NA	-20.6%	-26.1%	NA
EPS (RMB)	1.17	1.39	1.59	1.52	1.94	NA	-22.9%	-28.2%	NA
Gross margin	62.00%	61.50%	61.20%	57.00%	57.00%	NA	+5ppt	+4.5ppt	NA
Operating margin	22.93%	22.77%	22.76%	21.23%	20.87%	NA	+1.7ppt	+1.9ppt	NA
Net margin	20.13%	19.99%	20.02%	20.28%	19.91%	NA	-0.15 ppt	+0.08ppt	NA

Source: Company data, CMBIGM estimates

Figure 2: Risk-adjusted DCF valuation

DCF Valuation (in RMB mn)		2025E	2026E	2027E	2028E	2029E	2030E	2031E	2031E	2032E
EBIT		235	279	318	372	432	497	566	640	717
Tax rate		10%	10%	10%	10%	10%	10%	10%	10%	10%
EBIT*(1-tax rate)		212	252	287	336	390	448	511	577	647
+ D&A		80	80	80	93	108	125	142	161	180
- Change in working capital		(2)	(23)	(19)	(23)	(26)	(30)	(35)	(39)	(44)
- Capex		(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)
FCFF		190	209	248	307	372	442	518	599	683
Terminal value										7,981
Terminal growth rate	2.0%									
WACC	10.73%									
Cost of Equity	13.5%									
Cost of Debt	5.0%									
Equity Beta	1.0									
Risk Free Rate	3.0%									
Market Risk Premium	10.5%									
Target Debt to Asset ratio	30.0%									
Effective Corporate Tax Rate	15.0%									
PV of enterprise value (RMB mn)	5,174									
Net debt (RMB mn)	(172)									
Minority interests (RMB mn)	10									
Equity value (RMB mn)	5,335									
Equity value (HK\$ mn)	5,928									
# of shares outstanding (mn)	176									
Price per share (HK\$)	33.68									

Source: CMBIGM estimates

Figure 3: Sensitivity analysis

		WACC				
		9.73%	10.23%	10.73%	11.23%	11.73%
Terminal growth rate	3.0%	42.81	39.44	36.51	33.96	31.70
	2.5%	40.70	37.66	35.01	32.67	30.60
	2.0%	38.86	36.11	33.68	31.53	29.61
	1.5%	37.25	34.73	32.50	30.51	28.72
	1.0%	35.82	33.50	31.43	29.58	27.91

Source: CMBIGM estimates

Financial Summary

INCOME STATEMENT	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Revenue	586	753	852	1,025	1,225	1,398
Cost of goods sold	(253)	(315)	(314)	(390)	(472)	(543)
Gross profit	332	438	538	636	754	856
Operating expenses	(187)	(260)	(321)	(401)	(475)	(538)
Selling expense	(56)	(67)	(79)	(97)	(113)	(127)
Admin expense	(64)	(99)	(121)	(151)	(176)	(199)
R&D expense	(100)	(126)	(149)	(185)	(214)	(242)
Others	33	33	28	32	29	30
Operating profit	145	178	216	235	279	318
Net Interest income/(expense)	(1)	(3)	(2)	(5)	(6)	(6)
Pre-tax profit	144	175	213	230	273	312
Income tax	(11)	(22)	(23)	(25)	(30)	(34)
Net profit	134	153	190	205	243	278
Minority interest	2	(3)	(2)	(2)	(2)	(2)
Attributable net profit	132	156	192	206	245	280

BALANCE SHEET	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Current assets	802	724	892	558	766	1,002
Cash & equivalents	518	424	522	145	287	467
Account receivables	80	125	119	143	171	195
Inventories	154	129	162	180	218	251
ST bank deposits	10	11	3	3	3	3
Financial assets at FVTPL	0	0	30	30	30	30
Other current assets	40	36	56	56	56	56
Non-current assets	1,025	1,305	1,368	2,000	2,083	2,165
PP&E	634	789	811	839	868	896
Deferred income tax	15	18	30	30	30	30
Intangibles	70	130	169	227	285	343
Financial assets at FVTPL	162	175	159	159	159	159
Other non-current assets	144	193	199	745	741	737
Total assets	1,827	2,030	2,260	2,558	2,848	3,168
Current liabilities	240	317	434	524	567	603
Short-term borrowings	33	79	227	277	277	277
Account payables	127	176	164	203	246	283
Other current liabilities	80	62	43	43	43	43
Non-current liabilities	34	34	39	39	39	39
Deferred income	11	17	23	23	23	23
Other non-current liabilities	23	17	16	16	16	16
Total liabilities	273	351	473	563	605	642
Share capital	168	171	176	176	176	176
Other reserves	1,344	1,478	1,598	1,809	2,058	2,343
Total shareholders equity	1,512	1,649	1,774	1,985	2,234	2,519
Minority interest	42	29	12	10	9	7
Total equity and liabilities	1,827	2,030	2,260	2,558	2,848	3,168

CASH FLOW	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	144	175	213	230	273	312
Depreciation & amortization	37	48	80	80	80	80
Tax paid	(13)	(20)	(23)	(25)	(30)	(34)
Change in working capital	29	(25)	(50)	(2)	(23)	(19)
Others	(18)	0	(6)	4	8	7
Net cash from operations	180	178	214	286	308	345
Investing						
Capital expenditure	(243)	(169)	(150)	(100)	(100)	(100)
Others	(73)	(115)	(56)	(607)	(60)	(59)
Net cash from investing	(316)	(284)	(206)	(707)	(160)	(159)
Financing						
Dividend paid	(50)	(54)	0	0	0	0
Proceeds from share issues	4	3	0	0	0	0
Others	56	59	(22)	45	(6)	(6)
Net cash from financing	10	8	(22)	45	(6)	(6)
Net change in cash						
Cash at the beginning of the year	641	518	424	522	145	287
Exchange difference	4	3	0	0	0	0
Cash at the end of the year	518	424	409	145	287	467
GROWTH	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Revenue	26.1%	28.5%	13.2%	20.4%	19.5%	14.1%
Gross profit	20.6%	31.8%	22.7%	18.2%	18.5%	13.6%
Operating profit	(7.1%)	22.7%	21.2%	8.8%	18.7%	14.1%
Net profit	(4.7%)	14.5%	24.0%	7.6%	18.9%	14.4%
PROFITABILITY	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Gross profit margin	56.7%	58.2%	63.1%	62.0%	61.5%	61.2%
Operating margin	24.8%	23.7%	25.4%	22.9%	22.8%	22.8%
Return on equity (ROE)	9.2%	9.7%	11.1%	10.9%	11.5%	11.7%
GEARING/LIQUIDITY/ACTIVITIES	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Net debt to equity (x)	(0.3)	(0.3)	(0.3)	(0.1)	(0.1)	(0.2)
Current ratio (x)	3.3	2.3	2.1	1.1	1.4	1.7
Receivable turnover days	48.9	59.9	50.2	50.2	50.2	50.2
Inventory turnover days	175.3	161.9	166.7	166.7	166.7	166.7
Payable turnover days	181.0	201.5	187.6	187.6	187.6	187.6
VALUATION	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
P/E	31.8	27.4	22.8	21.4	18.0	15.8
P/E (diluted)	32.0	27.4	22.8	21.4	18.0	15.8
P/B	2.7	2.5	2.3	2.2	2.0	1.7
Div yield (%)	1.0	1.2	0.0	0.0	0.0	0.0
EV	3,554.4	3,583.3	3,485.6	3,862.3	3,720.4	3,540.5
EV/Sales	6.1	4.8	4.1	3.8	3.0	2.5

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

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