# Micro-Tech (688029 CH)

## Overseas growth remained strong; domestic business expected to bottom out after VBP

**BUY (Maintain)**

| | |
|---|---|
| **Target Price** | **RMB93.52** |
| (Previous TP | RMB90.60) |
| **Up/Downside** | **16.0%** |
| **Current Price** | **RMB80.60** |

Micro-Tech reported 9M26 revenue of RMB2.5bn (+5.7% YoY), accounting for 72% of our previous FY26 forecast, modestly below the historical average of 74%. Attributable net profit declined 18.3% YoY to RMB416mn on FX losses. Excluding RMB105mn of FX losses and related tax effects, 9M26 attributable net profit would have increased 4.8% YoY to RMB503mn. For 3Q26, revenue declined 3.3% YoY to RMB788mn as the domestic business was under VBP pressure, while overseas sales maintained rapid growth. 3Q26 gross margin was 62.5%, down 1.4ppt YoY, as overseas mix improvement was offset by FX and domestic price pressure. Looking ahead, we expect continued overseas penetration and innovation should remain the main growth drivers. We believe the national VBP should largely clear domestic pricing risk over the next several years and the domestic business will bottom out in 2027E and return to growth in 2028E.

- **Overseas growth remains robust.** 3Q26 overseas revenue increased over 20% YoY to ~RMB590mn, or approximately 25% in constant currency, accounting for ~75% of total sales. Revenue from Americas increased 35% YoY in 3Q26, supported by expanding product coverage, and stronger channel reach following the acquisition of three Conmed product lines. Revenue from Europe rose a solid 16% YoY, led by Italy and Spain, while APAC was held back by yen weakness. Innovative products also remained strong overseas, with overseas revenue from innovative products in 3Q26 up 38% YoY.
- **Domestic business is expected to bottom out as 7th national VBP completed.** 3Q26 domestic revenue fell 38.4% YoY to ~RMB200mn, mainly due to channel de-stocking ahead of VBP implementation. We believe the channel inventory has now been largely cleared. Importantly, the Company won broadly in the 7th national VBP, in 21 categories in total, which should support further share consolidation. While near-term revenue and margin pressure is unavoidable, we think the national VBP materially reduced the domestic policy overhang. In our view, domestic business may bottom out in 2027E as VBP-driven volume growth is expected to largely offset the ASP decline. Form 2028E, innovative products should become a main driver to support domestic business to return to solid growth.
- **Maintain BUY.** We cut FY27-28E attributable net profit to RMB600mn/RMB733mn to reflect the GPM pressure due to VBP. However, we roll forward our DCF valuation basis from FY26E-35E to FY27E-35E as market focus increasingly shifts to FY27E. WACC and terminal growth assumptions are unchanged. Therefore, we derive our TP of RMB93.52 based on a 9-year DCF model. Risks: lower-than-expected volume growth following VBP implementation, overseas expansion deceleration, FX volatility.

### Earnings Summary

| (YE 31 Dec) | FY24A | FY25A | FY26E | FY27E | FY28E |
|---|---|---|---|---|---|
| **Revenue (RMB mn)** | 2,755 | 3,184 | 3,325 | 3,727 | 4,303 |
| **YoY growth (%)** | 14.3 | 15.5 | 4.4 | 12.1 | 15.4 |
| **Attributable net profit (RMB mn)** | 553 | 570 | 552 | 600 | 733 |
| **YoY growth (%)** | 13.9 | 3.1 | (3.3) | 8.7 | 22.2 |
| **EPS (Reported) (RMB)** | 2.95 | 3.05 | 2.94 | 3.19 | 3.90 |
| **P/E (x)** | 27.3 | 26.4 | 27.5 | 25.2 | 20.7 |
| **Net gearing (%)** | (49.3) | (30.2) | (38.9) | (42.3) | (45.9) |

Source: Company data, Bloomberg, CMBIGM estimates

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**Stock Data**

| | |
|---|---|
| Mkt Cap (RMB mn) | 15,071.6 |
| Avg 3 mths t/o (RMB mn) | 200.4 |
| 52w High/Low (RMB) | 88.58/67.50 |
| Total Issued Shares (mn) | 187.0 |

Source: FactSet

**Shareholding Structure**

| | |
|---|---|
| Shenzhen Zhongke Merchants | 22.2% |
| Nanjing New weichuang | 19.6% |

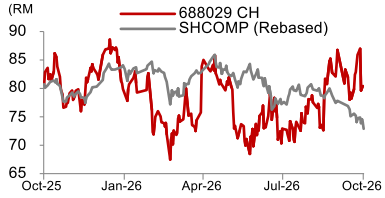
Source: SSE

**Share Performance**

| | Absolute | Relative |
|---|---|---|
| 1-mth | -7.1% | -0.8% |
| 3-mth | 10.0% | 16.3% |
| 6-mth | -5.2% | 8.3% |

Source: FactSet

**12-mth Price Performance**




Source: FactSet

## Figure 1: Earnings revision

| | New | | | Old | | | Diff (%) | | |
|---|---|---|---|---|---|---|---|---|---|
| RMB mn | FY26E | FY27E | FY28E | FY26E | FY27E | FY28E | FY26E | FY27E | FY28E |
| Revenue | 3,325 | 3,727 | 4,303 | 3,508 | 3,792 | 4,377 | -5.23% | -1.71% | -1.70% |
| Gross profit | 2,119 | 2,184 | 2,537 | 2,239 | 2,386 | 2,771 | -5.37% | -8.48% | -8.47% |
| Operating profit | 663 | 721 | 881 | 645 | 814 | 976 | 2.87% | -11.44% | -9.68% |
| Net profit | 552 | 600 | 733 | 536 | 677 | 811 | 2.87% | -11.45% | -9.69% |
| EPS (RMB) | 2.94 | 3.19 | 3.90 | 2.85 | 3.61 | 4.32 | 2.87% | -11.45% | -9.69% |
| Gross margin | 63.74% | 58.58% | 58.95% | 63.83% | 62.92% | 63.31% | -0.09ppt | -4.33ppt | -4.36ppt |
| Operating margin | 19.95% | 19.35% | 20.48% | 18.38% | 21.48% | 22.29% | +1.57ppt | -2.13ppt | -1.81ppt |
| Net margin | 16.59% | 16.09% | 17.03% | 15.28% | 17.86% | 18.54% | +1.31ppt | -1.77ppt | -1.51ppt |

Source: CMBIGM estimates

## Figure 2: Risk-adjusted DCF valuation

| DCF Valuation (in RMB mn) | 2027E | 2028E | 2029E | 2030E | 2031E | 2032E | 2033E | 2034E | 2035E |
|---|---|---|---|---|---|---|---|---|---|
| EBIT | 644 | 791 | 967 | 1,157 | 1,372 | 1,625 | 1,923 | 2,269 | 2,655 |
| Tax rate | 15.00% | 15.00% | 15.00% | 15.00% | 15.00% | 15.00% | 15.00% | 15.0% | 15.0% |
| EBIT*(1-tax rate) | 547 | 673 | 822 | 983 | 1,166 | 1,381 | 1,634 | 1,929 | 2,257 |
| + D&A | 158 | 159 | 159 | 161 | 163 | 165 | 167 | 197 | 230 |
| - Change in working capital | -52 | -61 | -64 | -67 | -68 | -71 | -73 | -86 | -100 |
| - Capex | -180 | -180 | -180 | -180 | -180 | -180 | -180 | -212 | -249 |
| **FCFF** | **474** | **591** | **737** | **898** | **1,081** | **1,296** | **1,548** | **1,827** | **2,138** |
| **Terminal value** | | | | | | | | | **24,992** |

| | |
|---|---|
| **Terminal growth rate** | **2.0%** |
| **WACC** | **10.7%** |
| Cost of Equity | 13.5% |
| Cost of Debt | 5.0% |
| Equity Beta | 1.00 |
| Risk Free Rate | 3.0% |
| Market Risk Premium | 10.5% |
| Target Debt to Asset ratio | 30.0% |
| Effective Corporate Tax Rate | 15.0% |

| | |
|---|---|
| Terminal value | 9,991 |
| Total PV | 15,816 |
| Net debt | -1,989 |
| Minority interest | 236 |
| Equity value | 17,568 |
| # of shares (mn) | 188 |
| **DCF per share (in RMB)** | **93.52** |

Source: CMBIGM estimates

## Figure 3: Sensitivity analysis (RMB)

| | | WACC | | | | |
|---|---|---|---|---|---|---|
| | | **9.7%** | **10.2%** | **10.7%** | **11.2%** | **11.7%** |
| **Terminal growth rate** | **3.0%** | 117.56 | 108.68 | 101.00 | 94.28 | 88.37 |
| | **2.5%** | 111.98 | 104.00 | 97.03 | 90.90 | 85.46 |
| | **2.0%** | 107.13 | 99.89 | **93.52** | 87.88 | 82.84 |
| | **1.5%** | 102.87 | 96.25 | 90.39 | 85.17 | 80.49 |
| | **1.0%** | 99.09 | 93.01 | 87.59 | 82.73 | 78.35 |

Source: CMBIGM estimates

# Financial Summary

| INCOME STATEMENT | 2023A | 2024A | 2025A | 2026E | 2027E | 2028E |
|---|---|---|---|---|---|---|
| **YE 31 Dec (RMB mn)** | | | | | | |
| **Revenue** | **2,411** | **2,755** | **3,184** | **3,325** | **3,727** | **4,303** |
| Cost of goods sold | (856) | (891) | (1,143) | (1,206) | (1,544) | (1,766) |
| **Gross profit** | **1,555** | **1,864** | **2,041** | **2,119** | **2,184** | **2,537** |
| Selling expense | (573) | (646) | (746) | (765) | (846) | (964) |
| Admin expense | (329) | (369) | (434) | (412) | (451) | (508) |
| R&D expense | (151) | (174) | (199) | (183) | (201) | (228) |
| Gain/loss on financial assets at FVTPL | 0 | (0) | 1 | 1 | 1 | 1 |
| Investment gain/loss | 28 | 21 | 17 | 17 | 17 | 17 |
| Other gains/(losses) | 23 | (35) | 12 | (114) | 18 | 26 |
| **Operating profit** | **555** | **659** | **692** | **663** | **721** | **881** |
| Others | 10 | 0 | (1) | (1) | (1) | (1) |
| **Pre-tax profit** | **565** | **660** | **691** | **663** | **721** | **881** |
| Income tax | (70) | (92) | (109) | (99) | (108) | (132) |
| Minority interest | (9) | (15) | (12) | (12) | (13) | (16) |
| **Net profit** | **486** | **553** | **570** | **552** | **600** | **733** |
| **Adjusted net profit** | **463** | **544** | **552** | **533** | **581** | **714** |
| Gross dividends | 187 | 280 | 280 | 276 | 300 | 366 |

| BALANCE SHEET | 2023A | 2024A | 2025A | 2026E | 2027E | 2028E |
|---|---|---|---|---|---|---|
| **YE 31 Dec (RMB mn)** | | | | | | |
| **Current assets** | **3,291** | **3,321** | **3,642** | **3,999** | **4,349** | **4,771** |
| Cash & equivalents | 1,209 | 1,887 | 1,438 | 1,913 | 2,109 | 2,416 |
| Account receivables | 411 | 434 | 537 | 498 | 548 | 621 |
| Inventories | 522 | 537 | 621 | 578 | 719 | 798 |
| Prepayment | 28 | 32 | 29 | 29 | 29 | 29 |
| Other current assets | 1,121 | 431 | 1,018 | 981 | 944 | 907 |
| **Non-current assets** | **1,102** | **1,459** | **1,822** | **1,841** | **1,859** | **1,877** |
| PP&E | 295 | 926 | 908 | 938 | 965 | 989 |
| Deferred income tax | 29 | 33 | 41 | 41 | 41 | 41 |
| Intangibles | 89 | 75 | 237 | 227 | 218 | 208 |
| Goodwill | 178 | 170 | 350 | 350 | 350 | 350 |
| Other non-current assets | 511 | 254 | 285 | 285 | 286 | 289 |
| **Total assets** | **4,393** | **4,780** | **5,464** | **5,840** | **6,208** | **6,648** |
| | | | | | | |
| **Current liabilities** | **650** | **806** | **1,004** | **1,096** | **1,155** | **1,216** |
| Short-term borrowings | 0 | 0 | 190 | 200 | 120 | 90 |
| Account payables | 274 | 510 | 414 | 495 | 634 | 726 |
| Tax payable | 46 | 49 | 50 | 50 | 50 | 50 |
| Other current liabilities | 329 | 248 | 350 | 350 | 350 | 350 |
| **Non-current liabilities** | **73** | **74** | **118** | **118** | **118** | **118** |
| Long-term borrowings | 0 | 0 | 0 | 0 | 0 | 0 |
| Deferred income | 7 | 9 | 17 | 17 | 17 | 17 |
| Other non-current liabilities | 66 | 64 | 100 | 100 | 100 | 100 |
| **Total liabilities** | **723** | **880** | **1,122** | **1,213** | **1,272** | **1,334** |
| | | | | | | |
| Share capital | 188 | 188 | 188 | 196 | 204 | 212 |
| Capital surplus | 110 | 110 | 110 | 110 | 110 | 110 |
| Others | 3,314 | 3,529 | 3,833 | 4,097 | 4,386 | 4,741 |
| **Total shareholders equity** | **3,612** | **3,826** | **4,130** | **4,403** | **4,699** | **5,062** |
| Minority interest | 58 | 73 | 212 | 224 | 236 | 252 |
| **Total equity and liabilities** | **4,393** | **4,780** | **5,464** | **5,840** | **6,208** | **6,648** |

| CASH FLOW | 2023A | 2024A | 2025A | 2026E | 2027E | 2028E |
|---|---|---|---|---|---|---|
| **YE 31 Dec (RMB mn)** | | | | | | |
| **Operating** | | | | | | |
| **Profit before taxation** | **495** | **568** | **583** | **563** | **613** | **748** |
| Depreciation & amortization | 83 | 102 | 144 | 158 | 158 | 159 |
| Tax paid | (70) | (92) | (109) | (99) | (108) | (132) |
| Change in working capital | 46 | (61) | (48) | 164 | (52) | (61) |
| Others | (8) | 96 | 118 | 194 | 68 | 79 |
| **Net cash from operations** | **546** | **613** | **688** | **980** | **679** | **794** |
| **Investing** | | | | | | |
| Capital expenditure | (256) | (270) | (255) | (180) | (180) | (180) |
| Acquisition of subsidiaries/ investments | (34) | (3) | (240) | 0 | 0 | 0 |
| Others | (848) | 685 | (430) | 38 | 38 | 38 |
| **Net cash from investing** | **(1,137)** | **412** | **(925)** | **(142)** | **(142)** | **(142)** |
| **Financing** | | | | | | |
| Dividend paid | (105) | (283) | (282) | (334) | (223) | (277) |
| Net borrowings | 0 | 0 | 116 | 10 | (80) | (30) |
| Proceeds from share issues | 2 | 0 | 8 | 8 | 8 | 8 |
| Others | (12) | (74) | (46) | (46) | (46) | (46) |
| **Net cash from financing** | **(114)** | **(357)** | **(204)** | **(362)** | **(341)** | **(345)** |
| **Net change in cash** | | | | | | |
| Cash at the beginning of the year | 1,875 | 1,209 | 1,870 | 1,438 | 1,913 | 2,109 |
| Exchange difference | 40 | (7) | 7 | 0 | 0 | 0 |
| **Cash at the end of the year** | **1,209** | **1,870** | **1,437** | **1,913** | **2,109** | **2,416** |

| GROWTH | 2023A | 2024A | 2025A | 2026E | 2027E | 2028E |
|---|---|---|---|---|---|---|
| **YE 31 Dec** | | | | | | |
| Revenue | 21.8% | 14.3% | 15.5% | 4.4% | 12.1% | 15.4% |
| Gross profit | 28.9% | 19.8% | 9.5% | 3.8% | 3.0% | 16.2% |
| Operating profit | 52.3% | 18.9% | 4.9% | (4.1%) | 8.7% | 22.2% |
| Net profit | 47.0% | 13.9% | 3.1% | (3.3%) | 8.7% | 22.2% |
| Adj. net profit | 54.7% | 17.5% | 1.4% | (3.4%) | 9.1% | 22.9% |

| PROFITABILITY | 2023A | 2024A | 2025A | 2026E | 2027E | 2028E |
|---|---|---|---|---|---|---|
| **YE 31 Dec** | | | | | | |
| Gross profit margin | 64.5% | 67.7% | 64.1% | 63.7% | 58.6% | 59.0% |
| Operating margin | 23.0% | 23.9% | 21.7% | 20.0% | 19.4% | 20.5% |
| Adj. net profit margin | 19.2% | 19.7% | 17.3% | 16.0% | 15.6% | 16.6% |
| Return on equity (ROE) | 14.2% | 14.9% | 14.3% | 12.9% | 13.2% | 15.0% |

| GEARING/LIQUIDITY/ACTIVITIES | 2023A | 2024A | 2025A | 2026E | 2027E | 2028E |
|---|---|---|---|---|---|---|
| **YE 31 Dec** | | | | | | |
| Net debt to equity (x) | (0.3) | (0.5) | (0.3) | (0.4) | (0.4) | (0.5) |
| Current ratio (x) | 5.1 | 4.1 | 3.6 | 3.6 | 3.8 | 3.9 |
| Receivable turnover days | 52.4 | 56.0 | 55.6 | 54.6 | 53.6 | 52.6 |
| Inventory turnover days | 232.1 | 216.7 | 184.8 | 175.0 | 170.0 | 165.0 |
| Payable turnover days | 129.2 | 160.5 | 147.5 | 150.0 | 150.0 | 150.0 |

| VALUATION | 2023A | 2024A | 2025A | 2026E | 2027E | 2028E |
|---|---|---|---|---|---|---|
| **YE 31 Dec** | | | | | | |
| P/E | 31.1 | 27.3 | 26.4 | 27.5 | 25.2 | 20.7 |
| P/E (diluted) | 31.1 | 27.3 | 26.4 | 27.5 | 25.2 | 20.7 |
| P/B | 19.9 | 16.5 | 13.5 | 12.6 | 12.0 | 11.4 |
| Div yield (%) | 1.2 | 1.9 | 1.9 | 1.8 | 2.0 | 2.4 |

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

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