

# Venus Medtech (Hangzhou) Inc. (2500 HK)

## Strong growth momentum in 1H21

- Solid revenue growth in 1H21, inline with market expectation.** Venus reported 1H21 revenue of RMB239mn (+134.6% YoY), accounting for 40% of our full-year estimate. The strong revenue growth was mainly driven by 1) increased sales in TAVR products which may contribute over 95% of the total revenue, and 2) market penetration of TriGUARD3 in overseas market. We estimate approximately 1,900 TAVR sales volume in 1H21 and a steady ASP of around RMB125,000 per unit during the same period. We think the second-generation product, VenusA-Plus, which were sold at a higher price than VenusA, may account for around 20% of the total sales volume in 1H21. Venus maintained its leading position in Chinese TAVR market with its distribution channel penetrated into more than 300 hospitals. We expect Venus to further expand its hospital coverage to 350 hospitals by this year end and to realize 4,200 TAVR sales volume in full-year of 2021.
- Further expand product pipelines to RDN products.** In Jun 2021, Venus announced to form a JV, namely Renaly, with Healium Medical, an Israeli company, to jointly develop renal artery denervation (RDN) products to treat uncontrolled or resistant hypertension. The prevalence of hypertension in China has exceeded 330mn, ranking the first in the world. Renaly's Dual-Mode Ultrasound Technology (DMUT) Platform can realize non-contact continuous ablation treatment with real-time monitoring function, which significantly lifts the safety and clinical efficacy of ablation procedures. Venus has appointed Professor Martin B. Leon as the global PI for its RDN development. Professor Leon and his team have been serving as the PI for clinical trials of several innovative systems including Medtronic's Symplicity Spyral™ Renal Denervation System and ReCor Medical's Paradise™ Ultrasonic Denervation System.
- Expect multiple catalysts in coming months.** We expect the Company's Leaflex (an aortic valve repair device) and Vitae (a preloaded dry valve TAVR product) to enter into FIM in 3Q21. We also expect VenusP-Valve (a TPVR product) to obtain CE approval in 2H21.
- Maintain BUY.** We maintain our earnings forecast unchanged and forecast total revenue to grow 117%/ 72%/ 52% YoY in FY21E/22E/23E. We maintain our DCF-based TP of HK\$78.4 (WACC: 9.0%, terminal growth rate: 4.0%).

### Earnings Summary

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	233	276	600	1029	1566
YoY growth (%)	102	18	117	72	52
Net income (RMB mn)	(381)	(182)	(42)	102	256
EPS (RMB)	(1.22)	(0.44)	(0.09)	0.23	0.58
Consensus EPS (RMB)	N/A	N/A	0.06	0.51	1.24
P/E (x)	N/A	N/A	N/A	162	65
P/B (x)	4	4	3	3	3
ROE (%)	(13)	(5)	(1)	2	5
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

**BUY (Maintain)**

**Target Price** **HK\$78.40**  
 (Previous TP) **HK\$78.40**  
**Up/Downside** **+73.84%**  
**Current Price** **HK\$45.10**

### China Healthcare Sector

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

**Jonathan ZHAO**  
 (852) 6359 1614  
 jonathanzhao@cmbi.com.hk

Mkt. Cap. (HK\$ mn)	20,309
Avg. 3mths t/o (HK\$ mn)	131.95
52W High/Low (HK\$)	97.00/44.55
Total Issued Shares (mn)	441

Source: Bloomberg

### Shareholding Structure

Management	25.93%
Employee	3.48%
Pre-IPO investors	48.27%
H-share free float	22.33%

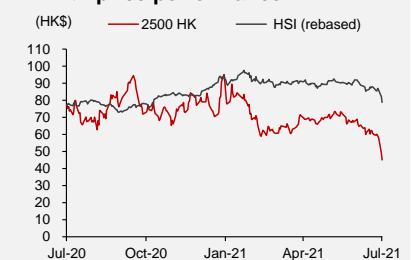
Source: HKEx, Bloomberg

### Share performance

	Absolute	Relative
1-mth	-27.1%	-18.5%
3-mth	-29.6%	-22.2%
6-mth	-45.0%	-38.3%

Source: Bloomberg

### 12-mth price performance



Source: Bloomberg

**Auditor: Ernst & Young**

**Web-site: [www.venusmedtech.com](http://www.venusmedtech.com)**

### Relative Reports:

- Comprehensive portfolio in transcatheter solutions for structural heart diseases - 7 Apr 2021
- Rich heart valve pipeline portfolio - 31 Aug 2020
- First 5-yr follow-up results for Venus A and updated results for first retrievable TAVR in China - 6 Jul 2020

**Please cast your valuable vote for CMBIS research team in the 2021 Asiamoney Brokers Poll:**  
<https://euromoney.com/brokers>

Figure 1: CMBIS estimates vs consensus

(RMB mn)	CMBI			Consensus			Diff (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	600	1,029	1,566	614	1,107	1,795	-2.3%	-7.0%	-12.8%
Gross profit	506	889	1,360	507	932	1,558	-0.1%	-4.6%	-12.7%
Net profit	(42)	102	256	(49)	175	N/A	N/A	-41.9%	N/A
EPS (RMB)	(0.09)	0.23	0.58	0.06	0.51	1.24	N/A	-54.3%	-53.1%
Gross margin	84.33%	86.33%	86.83%	82.45%	84.15%	86.80%	+1.88 ppt	+2.18 ppt	+0.03 ppt
Net Margin	-6.93%	9.88%	16.34%	-7.98%	15.81%	N/A	+1.05 ppt	-5.93 ppt	N/A

Source: Bloomberg (As at 28 July 2021, CMBIS estimates)

**Figure 2: DCF valuation**

<b>DCF Valuation (in Rmb mn)</b>	<b>2021E</b>	<b>2022E</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>	<b>2027E</b>	<b>2028E</b>	<b>2029E</b>	<b>2030E</b>
EBIT	(42)	120	301	509	788	1,157	1,554	1,981	2,464	2,994
Tax rate	15%	15%	15%	15%	15%	15%	15%	15%	15%	15%
EBIT*(1-tax rate)	(35)	102	256	433	669	984	1,321	1,683	2,094	2,545
+ D&A	27	27	27	27	27	27	27	27	27	27
- Change in working capital	(199)	(169)	(221)	(180)	(161)	(131)	(69)	(297)	(358)	(373)
- Capx	(50)	(50)	(50)	(50)	(50)	(50)	(50)	(50)	(50)	(50)
<b>FCFF</b>	<b>(258)</b>	<b>(91)</b>	<b>12</b>	<b>229</b>	<b>486</b>	<b>830</b>	<b>1,228</b>	<b>1,363</b>	<b>1,714</b>	<b>2,149</b>
<b>Terminal value</b>										<b>44,932</b>
FCF + Terminal value	(258)	(91)	12	229	486	830	1,228	1,363	1,714	47,081
Discount factor	100%	92%	84%	77%	71%	65%	60%	55%	50%	46%
<b>PV of FCF</b>	<b>(258)</b>	<b>(83)</b>	<b>10</b>	<b>177</b>	<b>344</b>	<b>540</b>	<b>733</b>	<b>747</b>	<b>862</b>	<b>21,722</b>
Present value of enterprise (RMB mn)	24,795									
Net Debt	(3903)									
Equity value (RMB mn)	28,698									
Equity value (HK\$ mn)	<b>34,576</b>									
# of shares outstanding (mn)	<b>441</b>									
<b>Price per share (HK\$)</b>	<b>78.40</b>									
<b>Terminal growth rate</b>	<b>4.0%</b>									
<b>WACC</b>	<b>9.0%</b>									
Cost of Equity	11.0%									
Cost of Debt	5.0%									
Equity Beta	0.8									
Risk Free Rate	3.0%									
Market Risk Premium	10.0%									
Target Debt to Asset ratio	30.0%									
Effective Corporate Tax Rate	15.0%									

Source: CMBIS estimates

## Financial Statements

### Income statement

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Revenue</b>	<b>233</b>	<b>276</b>	<b>600</b>	<b>1029</b>	<b>1566</b>
VenusA-Valve	232	272	527	901	1369
VenusP-Valve	0	0	51	78	108
TriGUARD3	0	3	19	46	81
V8 and TAV8	1	1	3	5	8
Cost of sales	(39)	(49)	(94)	(141)	(206)
<b>Gross profit</b>	<b>195</b>	<b>227</b>	<b>506</b>	<b>889</b>	<b>1360</b>
Other income	15	118	70	84	83
Selling & distribution expenses	(125)	(135)	(288)	(484)	(720)
Administrative expenses	(201)	(167)	(180)	(206)	(235)
R&D expenses	(198)	(104)	(120)	(134)	(157)
Other gains and losses	(45)	(122)	(30)	(30)	(30)
<b>Operating profit</b>	<b>(357)</b>	<b>(182)</b>	<b>(42)</b>	<b>120</b>	<b>301</b>
Net of impairment losses	(2)	0	0	0	0
Net finance costs	(22)	(4)	0	0	0
<b>Pre-tax profit</b>	<b>(382)</b>	<b>(186)</b>	<b>(42)</b>	<b>120</b>	<b>301</b>
Income tax	1	3	0	(18)	(45)
Minority interests	(0)	(1)	0	0	0
<b>Net profit to shareholders</b>	<b>(381)</b>	<b>(182)</b>	<b>(42)</b>	<b>102</b>	<b>256</b>

### Cash flow summary

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Profit before tax</b>	<b>(382)</b>	<b>(186)</b>	<b>(42)</b>	<b>120</b>	<b>301</b>
Depreciation and amortization	29	38	27	27	27
Change in working capital	(77)	(140)	(199)	(169)	(221)
Others	127	51	0	(18)	(45)
Net income tax paid	(5)	(5)	0	(18)	(45)
<b>Net cash from operating activities</b>	<b>(303)</b>	<b>(237)</b>	<b>(214)</b>	<b>(41)</b>	<b>62</b>
Capex	(25)	(124)	(50)	(50)	(50)
Acquisition of subsidiaries	(6)	(55)	0	0	0
Purchases of equity investments	0	(7)	0	0	0
Net purchases of financial assets	0	(63)	0	0	0
Others	0	(49)	0	0	0
<b>Net cash from investing activities</b>	<b>(31)</b>	<b>(298)</b>	<b>(50)</b>	<b>(50)</b>	<b>(50)</b>
Net proceeds from shares issued	2,833	1,054	1,199	0	0
Bank borrowing	(233)	(113)	0	0	0
Loans to related parties	0	0	0	0	0
Others	(23)	(14)	0	0	0
<b>Net cash from financing activities</b>	<b>2,577</b>	<b>928</b>	<b>1,199</b>	<b>0</b>	<b>0</b>
FX changes	5	(98)	0	0	0
Net change in cash	2,243	393	935	(91)	12
Cash at the beginning	165	2,413	2,708	3,643	3,552
<b>Cash at the end</b>	<b>2,413</b>	<b>2,708</b>	<b>3,643</b>	<b>3,552</b>	<b>3,564</b>

### Balance sheet

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Non-current assets</b>	<b>764</b>	<b>958</b>	<b>981</b>	<b>1,004</b>	<b>1,027</b>
PP&E	60	100	142	184	226
Goodwill	480	487	487	487	487
Other intangible assets	185	233	214	195	176
Deferred tax assets	3	1	1	1	1
Equity investments at fair value	30	7	7	7	7
Prepayments, other receivables and other assets	7	27	27	27	27
<b>Current assets</b>	<b>2,904</b>	<b>3,360</b>	<b>4,499</b>	<b>4,583</b>	<b>4,823</b>
Inventories	25	60	78	98	115
Trade receivables	162	231	417	572	783
Prepayments, other receivables and other assets	303	35	35	35	35
Cash and cash equivalents	2,414	2,968	3,903	3,812	3,824
Others	0	67	67	67	67
<b>Current liabilities</b>	<b>568</b>	<b>406</b>	<b>410</b>	<b>415</b>	<b>423</b>
Trade payables	1	5	10	15	22
Lease liabilities	9	11	11	11	11
Other payables and accruals	397	358	358	358	358
Due to a related party	1	0	0	0	0
Bank borrowing	120	0	0	0	0
Others	41	31	31	31	31
<b>Non-current liabilities</b>	<b>55</b>	<b>56</b>	<b>56</b>	<b>56</b>	<b>56</b>
Lease liabilities	17	22	22	22	22
Deferred tax liabilities	37	33	33	33	33
Others	0	1	1	1	1
<b>Total net assets</b>	<b>3,046</b>	<b>3,857</b>	<b>5,014</b>	<b>5,116</b>	<b>5,372</b>
Minority interest	9	42	42	42	42
<b>Shareholders' equity</b>	<b>3,037</b>	<b>3,815</b>	<b>4,973</b>	<b>5,074</b>	<b>5,330</b>

### Key ratios

YE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Sales mix (%)</b>					
VenusA-Valve	99	99	88	87	87
VenusP-Valve	0	0	8	8	7
TriGUARD3	0	1	3	4	5
V8 and TAV8	1	0	1	1	0
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
<b>Profit &amp; loss ratios (%)</b>					
Gross margin	83	82	84	86	87
EBITDA margin	(142)	(56)	(2)	14	21
Pre-tax margin	(164)	(68)	(7)	12	19
Net margin	(163)	(66)	(7)	10	16
Effective tax rate	0	2	0	15	15
<b>Balance sheet ratios</b>					
Current ratio (x)	5	8	11	11	11
Trade receivables turnover	187	301	250	200	180
Trade payables turnover	11	39	39	39	39
Net debt to total equity	Net cash	Net cash	Net cash	Net cash	Net cash
<b>Returns (%)</b>					
ROE	(13)	(5)	(1)	2	5
ROA	(10)	(4)	(1)	2	4
<b>Per share data</b>					
EPS (RMB)	(1.22)	(0.44)	(0.09)	0.23	0.58
DPS (RMB)	0.00	0.00	0.00	0.00	0.00
BVPS (RMB)	9.79	9.42	11.37	11.60	12.18

Source: Company data, CMBIS estimates

# 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.

Additional information on recommended securities is available upon request.

## CMBIS Ratings

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

## CMB International Securities Limited

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

**CMB International Securities Limited ("CMBIS") 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. CMBIS 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. CMBIS 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 CMBIS, solely for the purpose of supplying information to the clients of CMBIS 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 CMBIS 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. CMBIS has exerted every effort in its capacity to ensure, but not to guarantee, their accuracy, completeness, timeliness or correctness. CMBIS provides the information, advices and forecasts on an "AS IS" basis. The information and contents are subject to change without notice. CMBIS 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. CMBIS may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

CMBIS 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 CMBIS 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 CMBIS may have a conflict of interest that could affect the objectivity of this report and CMBIS 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 CMBIS.

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 CMBIS.

For recipients of this document in the United States

CMBIS is not a registered broker-dealer in the United States. As a result, CMBIS 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.