

Venus Medtech (Hangzhou) Inc. (2500 HK)

Maintained dominant position in TAVR market

Venus reported inline 1H21 revenue of RMB239mn (+134.6% YoY), accounting for 40% of our full-year estimate. The strong revenue growth was mainly driven by 1) fast-growing sales in TAVR products 2) market penetration of TriGUARD3 in overseas market. Attributable net loss widened (RMB113mn in 1H21 vs RMB44mn in 1H20) due to decrease in GPM (79% in 1H21 vs 84% in 1H20) and increase in R&D spending (RMB104mn in 1H21 vs RMB39mn in 1H20) and higher other expenses (RMB81mn in 1H21 vs RMB20mn in 1H20).

■ **Dominant position in Chinese TAVR market.** Venus realized RMB235mn TAVR revenue, or approximately 1,900 TAVR sales volume in 1H21, indicating a steady ASP of RMB125,000 per unit. The second-generation TAVR product, VenusA-Plus accounted for approximately 20% of the total sales volume in 1H21, which helped to maintain the blended ASP at a stable level. We estimate that Venus took over 70% market share in terms of surgical implant volume in China in 1H21, indicating the Company's strong commercial channel. As of mid-2021, Venus has penetrated into over 300 hospitals in China. With extensive sales channel coverage, we expect Venus to achieve 4,200 TAVR sales volume in full-year of 2021E.

■ **Diversifying into various interventional device area.** In Aug, Venus announced a potential acquisition with Nuocheng Medical to obtain its Liwen RF ablation system for the treatment of hypertrophic cardiomyopathy (HCM). The system adopts the international novel operation treatment ("Liwen Procedure") to conduct minimally invasive diagnosis and treatment under the guidance of ultrasound. Such method can not only dehydrate and necrotize hypertrophic myocardial cells, but also block the blood supply of hypertrophic myocardial tissue, thus achieving long-term prognosis. In Jun, Venus introduced a new generation RDN innovative system of Healium Medical through the establishment of a JV. Professor Martin B. Leon and his team will serve as the global principal investigator (PI) of the product. Thanks to its consistent business diversification efforts, Venus has potential to become a comprehensive interventional device platform with strong technology advantages.

■ **Maintain BUY.** We like Venus' highly innovative pipelines. We expect Leaflex (an aortic valve repair device) and Vitae (a preloaded dry valve TAVR product) to enter into FIM in 2H21E. We revised down our earnings forecasts to reflect higher R&D spending and forecast RMB109mn net loss in FY21E, RMB2mn net profit in FY22E and RMB188mn net profit in FY23E. We adjusted our DCF-based TP from HK\$78.40 to HK\$71.34 (WACC: 9.3%, terminal growth rate: 4.0%).

Earnings Summary

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	233	276	550	974	1487
YoY growth (%)	102	18	99	77	53
Net income (RMB mn)	(381)	(182)	(109)	2	188
EPS (RMB)	(1.22)	(0.44)	(0.25)	0.01	0.43
Consensus EPS (RMB)	N/A	N/A	(0.03)	0.45	1.10
P/E (x)	N/A	N/A	N/A	5973	75
P/B (x)	3	3	3	3	3
ROE (%)	(13)	(5)	(2)	0	4
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price	HK\$71.34
(Previous TP)	HK\$78.40
Up/Downside	+85.06%
Current Price	HK\$38.55

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)	17,360
Avg. 3mths t/o (HK\$ mn)	114.84
52W High/Low (HK\$)	97.00/34.65
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%

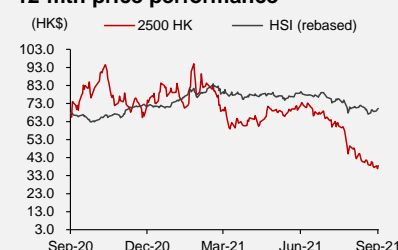
Source: HKEX, Bloomberg

Share performance

	Absolute	Relative
1-mth	-24.9%	-24.6%
3-mth	-48.5%	-42.0%
6-mth	-46.4%	-39.9%

Source: Bloomberg

12-mth price performance



Source: Bloomberg

Auditor: Ernst & Young

Web-site: www.venusmedtech.com

Relative Reports:

- Strong growth momentum in 1H21 – 28 Jul 2021
- 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

Figure 1: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	550	974	1,487	600	1,029	1,566	-8%	-5%	-5%
Gross Profit	443	789	1,212	506	889	1,360	-13%	-11%	-11%
Operating Profit	(109)	3	221	(42)	120	301	163%	-98%	-27%
Net profit	(109)	2	188	(42)	102	256	163%	-98%	-27%
EPS (RMB)	(0.25)	0.01	0.43	(0.09)	0.23	0.58	163%	-98%	-27%
Gross Margin	80.50%	81.00%	81.50%	84.33%	86.33%	86.83%	-3.83ppt	-5.33 ppt	-5.33 ppt
Operating Margin	-19.89%	0.28%	14.85%	-6.94%	11.62%	19.22%	-12.95 ppt	-11.34 ppt	-4.37 ppt
Net Margin	-19.88%	0.24%	12.62%	-6.93%	9.88%	16.34%	-12.95 ppt	-9.64 ppt	-3.72 ppt

Source: Company data, CMBIS estimates

Figure 2: CMBIS estimates vs consensus

(RMB mn)	CMBI			Consensus			Diff (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	550	974	1,487	600	1082	1738	-8%	-10%	-14%
Gross Profit	443	789	1,212	494	909	1512	-10%	-13%	-20%
Operating Profit	(109)	3	221	(29)	255	658	271%	-99%	-66%
net profit	(109)	2	188	(2)	184	457	4945%	-99%	-59%
EPS (RMB)	(0.25)	0.01	0.43	(0.03)	0.45	1.10	853%	-99%	-61%
Gross Margin	80.50%	81.00%	81.50%	82.30%	84.00%	87.00%	-1.80 ppt	-3.00 ppt	-5.50 ppt
Operating Margin	-19.89%	0.28%	14.85%	-4.91%	23.52%	37.86%	-14.98 ppt	-23.24 ppt	-23.01 ppt
Net Margin	-19.88%	0.24%	12.62%	-0.36%	17.04%	26.32%	-19.52 ppt	-16.79 ppt	-13.69 ppt

Source: Bloomberg (As at 1 September 2021, CMBIS estimates)

Figure 3: DCF valuation

DCF Valuation (in Rmb mn)	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
EBIT	(109)	3	221	427	716	1,034	1,442	1,893	2,412	2,992
Tax rate	15%	15%	15%	15%	15%	15%	15%	15%	15%	15%
EBIT*(1-tax rate)	(93)	2	188	363	609	879	1,226	1,609	2,050	2,543
+ D&A	27	27	27	27	27	27	27	27	27	27
- Change in working capital	(174)	(190)	(217)	(179)	(165)	(131)	(70)	(283)	(357)	(374)
- Capex	(50)	(50)	(50)	(50)	(50)	(50)	(50)	(50)	(50)	(50)
FCFF	(290)	(211)	(52)	161	421	725	1,133	1,302	1,670	2,146
Terminal value										41,914
FCF + Terminal value	(290)	(211)	(52)	161	421	725	1,133	1,302	1,670	44,060
Discount factor	100%	91%	84%	77%	70%	64%	59%	54%	49%	45%
PV of FCF	(290)	(193)	(43)	123	295	464	664	698	818	19,750
Present value of enterprise (RMB mn)	22,286									
Net Debt (RMB mn)	(3,828)									
Enterprise value (RMB mn)	26,113									
Enterprise value (HK\$ mn)	31,462									
# of shares outstanding (mn)	441									
Value per share (HK\$)	71.34									
Terminal growth rate	4.0%									
WACC	9.3%									
Cost of Equity	11.5%									
Cost of Debt	5.0%									
Equity Beta	0.9									
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						Cash flow summary					
YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E	YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	233	276	550	974	1487	Profit before tax	(382)	(186)	(109)	3	221
VenusA-Valve	232	272	527	901	1369	Depreciation and amortization	29	38	27	27	27
VenusP-Valve	0	0	9	37	53	Change in working capital	(77)	(140)	(174)	(190)	(217)
TriGUARD3	0	3	11	31	57	Others	127	51	0	(0)	(33)
V8 and TAV8	1	1	3	5	8	Net income tax paid	(5)	(5)	0	(0)	(33)
Cost of sales	(39)	(49)	(107)	(185)	(275)	Net cash from operating activities	(303)	(237)	(256)	(161)	(2)
Gross profit	195	227	443	789	1212	Capex	(25)	124	50	50	50
Other income	15	118	70	84	81	Acquisition of subsidiaries	(6)	55	0	0	0
Selling & distribution expenses	(125)	(135)	(220)	(380)	(565)	Purchases of equity investments	0	7	0	0	0
Administrative expenses	(201)	(167)	(192)	(244)	(238)	Net purchases of financial assets	0	63	0	0	0
R&D expenses	(198)	(104)	(110)	(127)	(149)	Others	0	49	0	0	0
Other gains and losses	(45)	(122)	(100)	(120)	(120)	Net cash from investing activities	(31)	298	50	50	50
Operating profit	(357)	(182)	(109)	3	221	Net proceeds from shares issued	2,833	1,054	1,199	0	0
Net of impairment losses	(2)	0	0	0	0	Bank borrowing	(233)	113	0	0	0
Net finance costs	(22)	(4)	0	0	0	Loans to related parties	0	0	0	0	0
Pre-tax profit	(382)	(186)	(109)	3	221	Others	(23)	14	0	0	0
Income tax	1	3	0	(0)	(33)	Net cash from financing activities	2,577	928	1,199	0	0
Minority interests	(0)	(1)	0	0	0	FX changes	5	(98)	0	0	0
Net profit to shareholders	(381)	(182)	(109)	2	188	Net change in cash	2,243	393	892	(211)	(52)
						Cash at the beginning	165	2,413	2,708	3,601	3,390
						Cash at the end	2,413	2,708	3,601	3,390	3,338

Balance sheet						Key ratios					
YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E	YE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Non-current assets	764	958	981	1,004	1,027	Sales mix (%)					
PP&E	60	100	142	184	226	VenusA-Valve	99	99	96	92	92
Goodwill	480	487	487	487	487	VenusP-Valve	0	0	2	4	4
Other intangible assets	185	233	214	195	176	TriGUARD3	0	1	2	3	4
Deferred tax assets	3	1	1	1	1	V8 and TAV8	1	0	1	1	1
Equity investments at fair value	30	7	7	7	7	Total	100	100	100	100	100
Prepayments, other receivables and other assets	7	27	27	27	27						
Current assets	2,904	3,360	4,433	4,421	4,595	Profit & loss ratios (%)					
Inventories	25	60	89	129	153	Gross margin	83	82	81	81	82
Trade receivables	162	231	382	541	743	EBITDA margin	(142)	(56)	(15)	3	17
Prepayments, other receivables and other assets	303	35	35	35	35	Pre-tax margin	(164)	(68)	(20)	0	15
Cash and cash equivalents	2,414	2,968	3,860	3,650	3,598	Net margin	(163)	(66)	(20)	0	13
Others	0	67	67	67	67	Effective tax rate	0	2	0	15	15
Current liabilities	568	406	412	420	430	Balance sheet ratios					
Trade payables	1	5	12	20	30	Current ratio (x)	5	8	11	11	11
Lease liabilities	9	11	11	11	11	Trade receivables turnover	187	301	250	200	180
Other payables and accruals	397	358	358	358	358	Trade payables turnover	11	39	39	39	39
Due to a related party	1	0	0	0	0	Net debt to total equity	Net cash	Net cash	Net cash	Net cash	Net cash
Bank borrowing	120	0	0	0	0						
Others	41	31	31	31	31	Returns (%)					
Non-current liabilities	55	56	56	56	56	ROE	(13)	(5)	(2)	0	4
Lease liabilities	17	22	22	22	22	ROA	(10)	(4)	(2)	0	3
Deferred tax liabilities	37	33	33	33	33	Per share data					
Others	0	1	1	1	1	EPS (RMB)	(1.22)	(0.44)	(0.25)	0.01	0.43
Total net assets	3,046	3,857	4,946	4,949	5,136	DPS (RMB)	0.00	0.00	0.00	0.00	0.00
Minority interest	9	42	42	42	42	BVPS (RMB)	9.79	9.42	11.22	11.22	11.65
Shareholders' equity	3,037	3,815	4,905	4,907	5,095						

Source: Company data, CMBIS estimates

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CMB International Securities Limited

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

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