

# Venus Medtech (2500 HK)

## Expanding global innovative product portfolio

- Maintained dominant position in Chinese TAVR market.** Venus reported 2021 revenue of RMB416mn, up 50.6% YoY, primarily driven by sales growth of VenusA-Valve/ VenusA-Plus in China (+49.0%YoY), as well as sales growth of TriGUARD3 in Europe (+180.3%YoY). The Company recorded other income and gains/ other expenses of RMB307mn/ RMB 389mn, respectively, which was primarily attributed to ~RMB240mn fair value adjustment of contingent payables related to the acquisition of Keystone. In 2021, Venus achieved approximately 3,600 TAVR implantation volume (+65% YoY), indicating ~70% of total market share in terms of implantation volume. Venus's 2<sup>nd</sup> generation product, VenusA-Plus, contributed ~35% of the total implantation volume in 2021. Thanks to the sales growth in high-margin VenusA-Plus product, the Company maintained a steady ASP of approximately RMB120,000 per unit during 2021. In 1Q22, Venus has recorded 900 sales volume in TAVR amid the challenging COVID-19 pandemic. Management aims to realize 5,000 to 5,500 TAVR implantation volume in 2022E, with VenusA-Plus to contribute more than 50% of total sales volume. We also expect the Company to further expand its hospital coverage from 360 in 2021 to 410 in 2022E.
- To provide comprehensive transcatheter solution for structural heart diseases.** Leveraging in-house innovation platform and BD efforts, Venus has established a product portfolio consisting of all four valves for treatment of structural heart diseases. As of aortic valves, VenusA-Valve and VenusA-Plus has secured the largest market share in China, while VenusA-Pro is to be launched in China in 2022E. In 2021, the Company has initiated FIM studies of the two new generation TAVR products (Venus-PowerX and Venus-Vitae), as well as its aortic valve repair product (Leaflex). We estimate Venus to start MRCTs of Venus-PowerX and Venus-Vitae by 1H23E. Furthermore, VenusP-valve is to be the first self-expanding TPVR product launched in the EU, with CE marking to be granted very soon. VenusP-valve may also receive commercial approval in China in 2022E. In Jan 2022, Venus completed the acquisition of Cardiovalve with a TMVR/TTVR product under development. The Cardiovalve system is currently undergoing multi-center clinical trials in the US and Europe, with 13/11 implantation cases completed for mitral regurgitation/ tricuspid regurgitation patients, respectively.
- Maintain BUY.** We expect VenusP-Valve to obtain CE approval in 1H22, and three products to be approved by NMPA in 2022E (VenusP-valve, TriGUARD3, VenusA-Pro). Driven by the launch of VenusP-valve and sales growth in TriGUARD3, we expect Venus' overseas revenue to reach c. US\$10mn in 2022E. We forecast revenue to grow 70%/ 45%/ 47% YoY in FY22E/23E/24E, and revised our DCF-based TP to HK\$24.44.

### Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	276	416	706	1,024	1,503
YoY growth (%)	18	51	70	45	47
Net income (RMB mn)	-182	-374	-315	-285	-169
EPS (RMB)	-0.44	-0.85	-0.71	-0.65	-0.38
Consensus EPS (RMB)	N/A	N/A	-0.01	0.46	N/A
P/E (x)	N/A	N/A	N/A	N/A	N/A
P/B (x)	1	1	1	1	1
ROE (%)	-5	-8	-7	-7	-4
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

**BUY (Maintain)**

Target Price	HK\$24.44
(Previous TP)	HK\$71.34)
Up/Downside	+63.59%
Current Price	HK\$14.94

### China Healthcare Sector

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

Mkt. Cap. (HK\$ mn)	6,589
Avg. 3mths t/o (HK\$ mn)	45.64
52W High/Low (HK\$)	75.00/12.62
Total Issued Shares (mn)	441

Source: Bloomberg

### Shareholding Structure

Zi Zhenjun	11.90%
Qiming Venture Partners	9.55%
GIC	7.99%
Others	70.56%

Source: HKEx

### Share performance

	Absolute	Relative
1-mth	-25.2%	-22.7%
3-mth	-45.3%	-41.8%
6-mth	-59.7%	-55.0%

Source: Bloomberg

### 12-mth price performance



Source: Bloomberg

**Auditor: Ernst & Young**

### Relative Reports:

- Maintained dominant position in TA VR market – 2 Sep 2021
- Strong growth momentum in 1H21 – 28 Jul 2021
- Comprehensive portfolio in transcatheter solutions for structural heart diseases - 7 Apr 2021

Figure 1: CMBIGM earnings revisions

RMB mn	New			Old			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	706	1,024	1,503	974	1,487	2,030	-27.6%	-31.1%	-25.9%
Gross Profit	547	794	1,165	789	1,212	1,664	-30.7%	-34.5%	-30.0%
Operating Profit	-311	-282	-166	3	221	427	N/A	N/A	N/A
Net profit	-315	-285	-169	2	188	363	N/A	N/A	N/A
EPS (RMB)	-0.71	-0.65	-0.38	0.01	0.43	0.82	N/A	N/A	N/A
Gross Margin	77.50%	77.50%	77.50%	81.00%	81.50%	82.00%	-3.50 ppt	-4.00 ppt	-4.50 ppt
Operating Margin	-44.11%	-27.48%	-11.03%	0.28%	14.85%	21.02%	-44.39 ppt	-42.33 ppt	-32.05 ppt
Net Margin	-44.61%	-27.83%	-11.26%	0.24%	12.62%	17.87%	-44.86 ppt	-40.45 ppt	-29.13 ppt

Source: Company data, CMBIGM estimates

Figure 2: CMBIGM estimates vs consensus

RMB mn	CMBI			Consensus			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	706	1,024	1,503	882	1,441	N/A	-19.9%	-28.9%	N/A
Gross Profit	547	794	1,165	723	1,189	N/A	-24.3%	-33.2%	N/A
Operating Profit	-311	-282	-166	-26	200	N/A	1110.8%	-240.6%	N/A
Attributable net profit	-315	-285	-169	-8	185	N/A	N/A	N/A	N/A
EPS (RMB)	-0.71	-0.65	-0.38	-0.01	0.46	N/A	N/A	N/A	N/A
Gross Margin	77.50%	77.50%	77.50%	82.00%	82.50%	N/A	-4.50 ppt	-5.00 ppt	N/A
Operating Margin	-44.11%	-27.48%	-11.03%	-2.92%	13.89%	N/A	-41.20 ppt	-41.37 ppt	N/A
Net Margin	-44.61%	-27.83%	-11.26%	-0.91%	12.84%	N/A	-43.70 ppt	-40.66 ppt	N/A

Source: Company data, Bloomberg, CMBIGM estimates

Figure 3: DCF valuation

DCF Valuation (in Rmb mn)	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
EBIT	-311	-282	-166	-43	111	265	492	811	1,237
Tax rate	0%	0%	0%	0%	15%	15%	15%	15%	15%
EBIT*(1-tax rate)	-311	-282	-166	-43	94	226	419	689	1,051
+ D&A	27	27	27	27	27	27	27	27	27
- Change in working capital	-220	-203	-275	-75	-274	-232	-202	-142	-44
- Capex	-50	-50	-50	-50	-50	-50	-50	-50	-50
<b>FCFF</b>	<b>-555</b>	<b>-507</b>	<b>-464</b>	<b>-141</b>	<b>-203</b>	<b>-29</b>	<b>194</b>	<b>524</b>	<b>985</b>
<b>Terminal value</b>									<b>17,099</b>
<b>FCF + Terminal value</b>	<b>-555</b>	<b>-507</b>	<b>-464</b>	<b>-141</b>	<b>-203</b>	<b>-29</b>	<b>194</b>	<b>524</b>	<b>18,083</b>
Present value of enterprise (RMB mn)	6,509								
Net Debt	-2,329								
Equity value (RMB mn)	8,837								
Equity value (HK\$ mn)	10,777								
# of shares outstanding (mn)	441								
<b>Price per share (HK\$)</b>	<b>24.44</b>								
<b>Terminal growth rate</b>	<b>4.0%</b>								
<b>WACC</b>	<b>10.0%</b>								
Cost of Equity	12.5%								
Cost of Debt	5.0%								
Equity Beta	0.9								
Risk Free Rate	3.0%								
Market Risk Premium	10.5%								
Target Debt to Asset ratio	30.0%								
Effective Corporate Tax Rate	15.0%								

Source: CMBIGM estimates

## Financial Statements

### Income statement

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Revenue</b>	<b>276</b>	<b>416</b>	<b>706</b>	<b>1,024</b>	<b>1,503</b>
VenusA-Valve	272	405	640	901	1,223
VenusP-Valve	0	0	50	102	151
TriGUARD3	3	9	14	19	27
V8 and TAV8	1	1	1	2	2
Cost of sales	(49)	(92)	(159)	(230)	(338)
<b>Gross profit</b>	<b>227</b>	<b>324</b>	<b>547</b>	<b>794</b>	<b>1,165</b>
Other income	118	307	46	38	31
Selling & distribution expenses	(135)	(216)	(346)	(481)	(676)
Administrative expenses	(167)	(258)	(318)	(359)	(376)
R&D expenses	(104)	(129)	(141)	(174)	(210)
Other gains and losses	(122)	(389)	(100)	(100)	(100)
<b>Operating profit</b>	<b>(182)</b>	<b>(361)</b>	<b>(311)</b>	<b>(282)</b>	<b>(166)</b>
Net of impairment losses	0	(3)	0	0	0
Net finance costs	(4)	(2)	(4)	(4)	(4)
<b>Pre-tax profit</b>	<b>(186)</b>	<b>(366)</b>	<b>(315)</b>	<b>(285)</b>	<b>(169)</b>
Income tax	3	6	0	0	0
Minority interests	(1)	2	0	0	0
<b>Net profit to shareholders</b>	<b>(182)</b>	<b>(374)</b>	<b>(315)</b>	<b>(285)</b>	<b>(169)</b>

### Cash flow summary

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Profit before tax</b>	<b>(186)</b>	<b>(378)</b>	<b>(315)</b>	<b>(285)</b>	<b>(169)</b>
Depreciation and amortization	38	52	27	27	27
Change in working capital	(140)	(21)	(220)	(203)	(275)
Others	51	42	4	4	4
Net income tax paid	(5)	6	0	0	0
<b>Net cash from operating activities</b>	<b>(237)</b>	<b>(304)</b>	<b>(505)</b>	<b>(457)</b>	<b>(414)</b>
Capex	(124)	(679)	(50)	(50)	(50)
Acquisition of subsidiaries	(55)	0	0	0	0
Purchases of equity investments	(7)	(10)	0	0	0
Net purchases of financial assets	(63)	44	0	0	0
Others	(49)	(1)	0	0	0
<b>Net cash from investing activities</b>	<b>(298)</b>	<b>(646)</b>	<b>(50)</b>	<b>(50)</b>	<b>(50)</b>
Net proceeds from shares issued	1,054	1,199	0	0	0
Bank borrowing	(113)	0	0	0	0
Loans to related parties	0	0	0	0	0
Others	(14)	(2)	(4)	(4)	(4)
<b>Net cash from financing activities</b>	<b>928</b>	<b>1,197</b>	<b>(4)</b>	<b>(4)</b>	<b>(4)</b>
FX changes	(98)	0	0	0	0
Net change in cash	393	247	(558)	(511)	(467)
Cash at the beginning	2,413	2,708	2,955	2,397	1,886
<b>Cash at the end</b>	<b>2,708</b>	<b>2,955</b>	<b>2,397</b>	<b>1,886</b>	<b>1,419</b>

### Balance sheet

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Non-current assets</b>	<b>958</b>	<b>1,670</b>	<b>1,693</b>	<b>1,716</b>	<b>1,739</b>
PP&E	69	142	184	226	268
Goodwill	487	520	520	520	520
Other intangible assets	233	305	286	267	248
Deferred tax assets	1	8	8	8	8
Equity investments at fair value	7	16	16	16	16
Prepayments, other receivables and other assets	27	17	17	17	17
<b>Current assets</b>	<b>3,360</b>	<b>3,440</b>	<b>3,111</b>	<b>2,811</b>	<b>2,630</b>
Inventories	60	91	148	202	278
Trade receivables	231	302	474	630	841
Prepayments, other receivables and other assets	35	89	89	89	89
Cash and cash equivalents	2,968	2,958	2,400	1,889	1,421
Others	67	0	0	0	0
<b>Current liabilities</b>	<b>406</b>	<b>209</b>	<b>217</b>	<b>225</b>	<b>237</b>
Trade payables	5	9	18	26	38
Lease liabilities	11	18	18	18	18
Other payables and accruals	358	145	145	145	145
Due to a related party	0	0	0	0	0
Bank borrowing	0	5	5	5	5
Others	31	32	32	32	32
<b>Non-current liabilities</b>	<b>56</b>	<b>269</b>	<b>269</b>	<b>269</b>	<b>269</b>
Lease liabilities	22	48	48	48	48
Deferred tax liabilities	33	53	53	53	53
Others	1	167	167	167	167
<b>Total net assets</b>	<b>3,857</b>	<b>4,632</b>	<b>4,317</b>	<b>4,032</b>	<b>3,863</b>
Minority interest	42	86	86	86	86
<b>Shareholders' equity</b>	<b>3,815</b>	<b>4,546</b>	<b>4,231</b>	<b>3,946</b>	<b>3,776</b>

### Key ratios

YE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Sales mix (%)</b>					
VenusA-Valve	99	97	91	88	81
VenusP-Valve	0	0	7	10	10
TriGUARD3	1	2	2	2	2
V8 and TAV8	0	0	0	0	0
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>93</b>
<b>Profit &amp; loss ratios (%)</b>					
Gross margin	82	78	78	78	78
EBITDA margin	(56)	(80)	(40)	(25)	(9)
Pre-tax margin	(68)	(88)	(45)	(28)	(11)
Net margin	(66)	(89)	(45)	(28)	(11)
Effective tax rate	2	2	0	0	0
<b>Balance sheet ratios</b>					
Current ratio (x)	8	16	14	12	11
Trade receivables turnover	301	262	242	222	202
Trade payables turnover	39	34	40	40	40
Net debt to total equity	Net cash	Net cash	Net cash	Net cash	Net cash
<b>Returns (%)</b>					
ROE	(5)	(8)	(7)	(7)	(4)
ROA	(4)	(7)	(7)	(6)	(4)
<b>Per share data</b>					
EPS (RMB)	(0)	(1)	(1)	(1)	(0)
DPS (RMB)	0	0	0	0	0
BVPS (RMB)	9	11	10	9	9

Source: Company data, CMBIGM estimates

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## CMB International Global Markets Limited

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

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