

Tigermed (300347 CH)

Effectively mitigating the impact of COVID-19 outbreak

- 1Q22 earnings largely inline.** Tigermed reported 1Q22 revenue of RMB1,818mn, up 102% YoY, accounting for 26% of our full-year estimate. Attributable net income was RMB518mn, up 14% YoY, and attributable recurring net income of RMB378mn, up 65% YoY, accounting for 23% of our full-year estimate. By segment, revenue of Clinical Trial Solution (CTS) jumped by c.150% YoY in 1Q22, thanks to the Company's active involvement in COVID-19 MRCTs (multi-regional clinical trials) and strong clinical demand from innovative drugs and medical devices. Excluding COVID-19 related revenue, CTS income grew by c.50% YoY in 1Q22. Gross profit margin (GPM) improved from 37.6% in 4Q21 to 38.8% in 1Q22 due to milder RMB appreciation in the quarter as well as fast revenue growth of high-margin services such as data management and statistics analysis (DMSA) and lab services. Considering the shrinking size of pass-through fees from COVID-19 related revenue and the possible trend of RMB depreciation, we expect Tigermed's GPM to continue to improve in the rest of 2022. In 1Q22, non-COVID-19 related new orders increased by c.50% YoY, serving as a solid driver for Tigermed's future growth.
- Omicron outbreaks in China had limited impact on business operation.** Tigermed conducts clinical trial services in 2,418 clinical centers (or hospitals) in China, with 66 centers in Shanghai and 35 in Changchun. Shanghai and Changchun account for a combined 4.2% of Tigermed's total operating clinical centers in China. In addition, Shanghai and Changchun contributed c. 6.7% of Tigermed's total number enrollment in April. Tigermed has adopted a series of actions to insure the smooth operation of clinical trials. In April, only c. 500 out of the 12,000 enrolled patients missed clinical follow-ups while many of the 500 patients continued their treatment. As for lab services business, Shanghai contributes less than 20% of Tigermed's total lab service revenue, indicating limited impact on the overall growth of lab services. Management aims to achieve above 40% YoY recurring net profit growth in 2022E assuming the COVID-19 outbreak in Shanghai would ease by the end of April.
- Focus on high-margin business.** Management aims to prioritize the expansion of high-margin businesses, such as clinical trials operation and DMSA while takes a conservative strategy on the SMO business given its low profitability nature. Tigermed is also actively exploring business opportunities with MNC clients in China and in the Great Bay Area and Boston in the US.
- Maintain BUY.** We revise our TP from RMB183.56 to RMB173.39, based on a 9-year DCF model (WACC: 9.84%, terminal growth rate: 3.0%). We forecast revenue to grow 36%/31%/29% YoY and attributable recurring net income to grow 41%/34%/33% YoY in FY22E/23E/24E.

Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	3,192	5,214	7,116	9,328	12,045
YoY growth (%)	14	63	36	31	29
Net income (RMB mn)	1,750	2,874	2,396	3,118	4,008
Adjusted net income (RMB mn)	708	1,232	1,737	2,320	3,092
EPS (RMB)	2.20	3.31	2.75	3.57	4.59
Consensus EPS (RMB)	NA	NA	3.67	4.45	5.33
P/E (x)	41	27	33	25	20
ROE (%)	11	16	12	14	16
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price **RMB173.39**
 (Previous TP **RMB183.56**)
 Up/Downside **+93.17%**
 Current Price **RMB89.76**

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Stock Data

Mkt Cap (RMB mn)	75,043
Avg 3 mths t/o (RMB mn)	829
52w High/Low (RMB)	209.41/80.21
Total Issued A-shares (mn)	749
Total Issued H-shares (mn)	123

Source: Bloomberg

Shareholding Structure

Management	28.05%
H-share public shareholders	24.78%
ZhongOu AMC	4.21%
Temasek	2.12%
Others	40.84%

Source: Company

Share Performance

	Absolute	Relative
1-mth	-8.9%	0.5%
3-mth	-17.4%	2.8%
6-mth	-44.6%	-27.3%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: BDO

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Figure 1: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	7,116	9,328	12,045	7,116	9,328	12,045	0.00%	0.00%	0.00%
Gross Profit	3,225	4,282	5,648	3,225	4,282	5,648	0.00%	0.00%	0.00%
Operating Profit	2,122	2,883	3,866	2,047	2,737	3,654	3.69%	5.32%	5.80%
Net profit	2,396	3,118	4,008	2,610	3,375	4,294	-8.20%	-7.59%	-6.67%
EPS (US\$ cents)	2.75	3.57	4.59	2.99	3.87	4.92	-8.20%	-7.59%	-6.67%
Gross Margin	45.32%	45.90%	46.89%	46.26%	46.48%	46.89%	-0.93ppt	-0.58ppt	0.00ppt
Operating Margin	29.82%	30.90%	32.09%	27.57%	29.00%	30.33%	+2.26ppt	+1.90ppt	+1.76ppt
Net Margin	33.67%	33.43%	33.27%	24.87%	26.47%	35.65%	+8.79ppt	+6.96ppt	-2.38ppt

Source: Company data, CMBIGM estimates

Figure 2: CMBIGM estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	7,116	9,328	12,045	6,913	8,871	11,246	2.93%	5.16%	7.11%
Gross Profit	3,225	4,282	5,648	3,125	4,093	5,230	3.19%	4.61%	7.99%
Operating Profit	2,122	2,883	3,866	3,195	3,932	4,678	-33.58%	-26.69%	-17.37%
Net profit	2,396	3,118	4,008	3,195	3,857	4,484	-25.02%	-19.15%	-10.62%
EPS (US\$ cents)	2.75	3.57	4.59	3.67	4.45	5.33	-25.24%	-19.59%	-13.75%
Gross Margin	45.32%	45.90%	46.89%	45.21%	46.14%	46.51%	+0.11ppt	-0.24ppt	+0.38ppt
Operating Margin	29.82%	30.90%	32.09%	46.22%	44.32%	41.60%	-16.39ppt	-13.42ppt	-9.50ppt
Net Margin	33.67%	33.43%	33.27%	46.22%	43.48%	39.87%	-12.55ppt	-10.05ppt	-6.60ppt

Source: Company data, CMBIGM estimates

Figure 3: Valuation on risk-adjusted DCF valuation

DCF Valuation (in Rmb mn)	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
EBIT	2,947	3,887	5,248	7,032	9,353	12,346	16,173	21,025	27,122
Tax rate	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%
EBIT*(1-tax rate)	2,711	3,576	4,828	6,470	8,605	11,358	14,879	19,343	24,952
+ D&A	174	197	247	306	376	459	555	666	793
- Change in working capital	(5)	(214)	(268)	(332)	(408)	(498)	(603)	(724)	(861)
- Capex	(2,475)	(1,795)	(2,244)	(2,783)	(3,423)	(4,176)	(5,052)	(6,063)	(7,215)
FCFF	405	1,764	2,563	3,661	5,150	7,143	9,779	13,223	17,669
Terminal value									266,070
Terminal growth rate		3.00%							
WACC		9.84%							
Cost of Equity		12.85%							
Cost of Debt		5.00%							
Equity Beta		0.90							
Risk Free Rate		2.50%							
Market Risk Premium		11.50%							
Target Debt to Asset ratio		35.00%							
Effective Corporate Tax Rate		15.00%							
Terminal value (RMB mn)		114,328							
Total PV (RMB mn)		146,798							
Net debt (RMB mn)		(7,387)							
Equity value (RMB mn)		2,913							
Minority (RMB mn)		151,272							
# of shares (mn)		872							
Price per share (RMB per share)		173.39							

Source: CMBIGM estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	3,192	5,214	7,116	9,328	12,045
Clinical trial solutions	1,519	2,994	4,191	5,532	7,192
Clinical-related and laboratory services	1,657	2,194	2,896	3,764	4,818
Other business	16	26	29	32	35
Cost of sales	(1,678)	(2,943)	(3,891)	(5,047)	(6,397)
Gross profit	1,514	2,271	3,225	4,282	5,648
Business taxes	(11)	(23)	(21)	(28)	(36)
Selling & distribute exp.	(97)	(129)	(171)	(224)	(289)
Administrative expenses	(391)	(547)	(676)	(840)	(1,060)
R&D expenses	(157)	(212)	(235)	(308)	(397)
Operating profit	859	1,359	2,122	2,883	3,866
Finance costs, net	(88)	216	126	113	120
Investment gains	284	312	300	300	300
Other gains	1,159	1,808	525	705	855
Pre-tax profit	2,219	3,685	3,073	4,000	5,141
Income tax	(190)	(293)	(246)	(320)	(411)
Minority interests	(279)	(518)	(431)	(562)	(722)
Attributable net profit	1,750	2,874	2,396	3,118	4,008

Cash flow summary

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Total net profit	2,029	3,392	2,827	3,680	4,730
D&A	85	123	104	127	148
Change in working capital	(41)	(235)	(5)	(214)	(267)
Investment loss (gain)	(284)	(312)	(300)	(300)	(300)
Other operating activities	(791)	(1,543)	(581)	(747)	(905)
Net cash fr. operating act.	999	1,424	2,045	2,546	3,406
Capex	(156)	(369)	(300)	(300)	(300)
Purchase of investment assets	(2,910)	(3,188)	(3,000)	(2,500)	(2,500)
Other investing activities	699	774	825	1,005	1,155
Net cash fr. investing act.	(2,367)	(2,783)	(2,475)	(1,795)	(1,645)
Net proceeds from shares issued	11,212	272	0	0	0
Bank borrowing	(903)	492	0	0	0
Dividends and interests paid	(271)	(284)	(235)	(357)	(484)
Other financing activities	(698)	(643)	0	0	0
Net cash fr. financing act.	9,339	(163)	(235)	(357)	(484)
FX changes	(47)	(60)	0	0	0
Net change in cash	7,923	(1,582)	(665)	393	1,277
Cash at beginning of the year	2,037	9,960	8,544	7,879	8,272
Cash at the end of the year	10,124	8,544	7,879	8,272	9,549

Balance sheet

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Non-current assets	7,860	12,889	16,015	18,618	21,200
Fixed asset	300	438	682	903	1,102
Intangible assets	142	251	211	171	131
Financial assets available for sale	0	0	0	0	0
Goodwill	1,445	1,779	1,779	1,779	1,779
Other non-current assets	5,973	10,422	13,344	15,766	18,188
Current assets	11,646	10,852	10,267	10,940	12,561
Cash	10,124	8,544	7,879	8,272	9,549
Inventories	5	6	5	7	9
Trade and bills receivables	496	816	897	1,176	1,518
Prepayments, deposits and other receivables	28	59	59	59	59
Other current assets	994	1,426	1,426	1,426	1,426
Current liabilities	1,139	2,413	2,488	2,554	2,631
Borrowings	0	492	492	492	492
Trade and other payables	181	156	156	156	156
Other current liabilities	958	1,765	1,840	1,906	1,983
Non-current liabilities	508	723	723	723	723
Borrowings	0	0	0	0	0
Other non-current liabilities	508	723	723	723	723
Total net assets	17,858	20,605	23,071	26,281	30,407
Minority interest	1,740	2,482	2,913	3,474	4,196
Shareholders' equity	16,119	18,124	20,158	22,807	26,210

Key ratios

YE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Sales mix (%)					
Clinical trial solutions	48	57	59	59	60
Clinical-related and laboratory services	52	42	41	40	40
Other business	1	1	0	0	0
Total	100	100	100	100	100
Profit & loss ratios (%)					
Gross margin	47	44	45	46	47
EBITDA margin	75	69	43	43	43
Pre-tax margin	70	71	43	43	43
Net margin	55	55	34	33	33
Effective tax rate	9	8	8	8	8
Balance sheet ratios					
Current ratio (x)	10	4	4	4	5
Trade receivables turnover days	90	46	46	46	46
Trade payables turnover days	40	21	21	21	21
Net debt to total equity ratio (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Returns (%)					
ROE	11	16	12	14	16
ROA	10	14	11	12	14
Per share					
EPS (RMB)	2.20	3.31	2.75	3.57	4.59
DPS (RMB)	0.33	0.50	0.41	0.54	0.69
BVPS (RMB)	20.31	20.94	23.11	26.14	30.04

Source: Company data, CMBIGM estimates

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