

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

### Comprehensive portfolio in transcatheter solutions for structural heart diseases

**Net loss narrowed in 2020.** Venus reported 2020 revenue of RMB276mn (+18.3% YoY), and net loss narrowed from RMB381mn in 2019 to RMB182mn in 2020, which slightly missed our estimates. VenusA-Valve was still the major source of revenue, contributing 98.5% of total revenue. TriGUARD3 recorded RMB3.3mn revenue, accounting for 1.2% of total revenue. Gross profit margin retreated 1.1ppts mainly due to selling price decline of VenusA-Valve, partly offset by production cost saving. Meanwhile, selling expense ratio decreased 1.46ppts due to impact from COVID-19 and improved marketing efficiency via online promotions. R&D expenses decreased by 16.6% YoY to RMB167mn and admin expenses dropped 47.3% YoY to RMB104mn in 2020 due to one-off expense related to employee share incentives incurred in 2019.

- Expect strong recovery from COVID-19 impact.** The COVID-19 pandemic had led to delays in TAVR surgeries, especially during 1H20. In 2H20, the Company experienced a strong recovery thanks to the ease of the pandemic in China. We estimate that the sales volume of VenusA-Valve almost doubled HoH in 2H20 while the full-year commercial sales volume exceeded 2,000 units. We think Venus was still the major player in Chinese TAVR market with approximately 80% volume share in 2020. Our calculation shows that the average out-of-factory price of VenusA declined approximately 12% YoY to RMB131,000~131,500 in 2020. With the commercialization of VenusA-Plus valve, which is a second-generation retrievable TAVR product, we believe the blended ASP will stabilize and forecast RMB125,000 blended ASP in 2021E, assuming 20% of sales volume from VenusA-Plus and the remaining 80% from VenusA. We forecast the combined sales volume of VenusA and VenusA-Plus will be more than 4,000 in 2021E, indicating 100%+ YoY growth. The strong growth will be driven by both post-COVID recovery and fast channel penetration. The Company aims to lift the number of penetrated hospitals from 249 hospitals as of end-2020 to 350 by 2021E.
- Building comprehensive portfolio in transcatheter solutions for structural heart diseases.** Venus currently has two commercial stage TAVR products (VenusA and VenusA-Plus), one TAVR product in pre-registration stage (VenusA-Pro), two TAVR products in design stage (Venus PowerX and Venus Vitae), one TPVR product in registration stage (VenusP), one TMVR product in design stage (Limbus), one TTVR product and one surgical valve in design stage. In addition, Venus is developing an aortic valve repair device (Leaflex) which may complete FIM in 2Q21E. PowerX, Vitae and surgical valve are developed using the Company's leading dry tissue technology which intends to significantly extend TAVR products' durability.
- Maintain BUY.** We remain long-term positive on the Company given its leading position in China TAVR market. We trimmed our revenue forecast of 2021E/22E/23E by 31%/28%/24% to reflect the impact from COVID-19. We expect total revenue to grow 117%/ 72%/ 52% YoY in FY21E/22E/23E. We roll over our DCF-based TP to 2021 and derived our new TP of HK\$78.4 (WACC: 9.0%, terminal growth rate: 4.0%).

**BUY (Maintain)**

<b>Target Price</b>	<b>HK\$78.4</b>
(Previous TP)	HK\$95.67)
<b>Up/Downside</b>	<b>+20.52%</b>
<b>Current Price</b>	<b>HK\$65.05</b>

#### China Healthcare Sector

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Mkt. Cap. (HK\$ mn)	28,688
Avg. 3mths t/o (HK\$ mn)	223.83
52W High/Low (HK\$)	97.00/46.80
Total Issued Shares (mn)	432

 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	-5.6%	-5.1%
3-mth	-17.7%	-22.6%
6-mth	-21.0%	-35.9%

 Source: Bloomberg

#### 12-mth price performance



Source: Bloomberg

#### Auditor: Ernst & Young

#### Relative Reports:

- 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
- Inline results; Moderate impact from COVID-19 – 29 Mar 2020

## 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	0.07	0.96	2.27
P/E (x)	N/A	N/A	N/A	234	93
P/B (x)	6	6	5	5	4
ROE (%)	(13)	(5)	(1)	2	5
Net gearing (%)	Net cash				

Source: Company data, CMBIS estimates

## Figure 1: FY20A results review

YE 31 Dec (RMB mn)	2019A	2020A	YoY Change	CMBIS 2020E	Diff (%)
Revenue	233	276	18.34%	339	-18.61%
Cost of sales	(39)	(49)	26.32%	(53)	-7.23%
Gross profit	195	227	16.75%	287	-20.69%
Other income and gains	15	118	668.07%	45	160.33%
Selling and distribution expenses	(125)	(135)	8.03%	(115)	16.70%
Research and development costs	(201)	(167)	-16.60%	(136)	23.29%
Administrative expenses	(198)	(104)	-47.34%	(85)	22.74%
Other expenses	(45)	(122)	172.01%	(45)	172.01%
Profit from operations	(357)	(182)	N/A	(49)	N/A
Impairment losses on financial assets, net	(2)	0	-102.30%	(2)	-102.30%
Finance costs	(22)	(4)	-80.97%	(7)	-42.06%
Share of loss of an associate	-	1	N/A	0	N/A
Profit before taxation	(382)	(186)	N/A	(58)	N/A
Income tax expense	1	3	282.39%	0	N/A
Profit (loss) for the year	(381)	(183)	N/A	(58)	N/A
Non-controlling interests	(0)	(1)	1992.86%	0	N/A
Profit (loss) attributable to shareholders	(381)	(182)	N/A	(58)	N/A

Source: Company data, CMBIS estimates

## Figure 2: CMBIS earnings revisions

(RMB mn)	New			Old			Diff (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	600	1,029	1,566	864	1,423	2,046	-30.6%	-27.7%	-23.5%
Gross profit	506	889	1,360	748	1,252	1,801	-32.3%	-29.0%	-24.5%
Operating profit	(42)	120	301	224	519	833	N/A	-77.0%	-63.9%
Net profit	(42)	102	256	182	433	700	N/A	-76.5%	-63.4%
EPS (RMB)	(0.09)	0.23	0.58	0.45	1.07	1.73	N/A	-78.5%	-66.5%
Gross margin	84.3%	86.3%	86.8%	86.5%	88.0%	88.0%	-2.1 ppt	-1.7 ppt	-1.2 ppt
Operating margin	-6.9%	11.6%	19.2%	25.9%	36.5%	40.7%	-32.9 ppt	-24.9 ppt	-21.5 ppt
Net Margin	-6.9%	9.9%	16.3%	21.1%	30.5%	34.2%	-28.0 ppt	-20.6 ppt	-17.9 ppt

Source: Company data, CMBIS estimates

## Figure 3: CMBIS estimates vs consensus

(RMB mn)	CMBI			Consensus			Diff (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	600	1,029	1,566	748	1,289	1,852	-19.8%	-20.1%	-15.5%
Gross profit	506	889	1,360	630	1,095	N/A	-19.7%	-18.9%	N/A
Operating profit	(42)	120	301	43	349	837	N/A	-65.7%	-64.0%
Net profit	(42)	102	256	-49	175	N/A	N/A	-41.9%	N/A
EPS (RMB)	(0.09)	0.23	0.58	0.16	0.75	2.05	N/A	-69.0%	-71.7%
Gross margin	84.3%	86.3%	86.8%	84.3%	85.0%	N/A	-0.1 ppt	+1.4 ppt	N/A
Operating margin	-6.9%	11.6%	19.2%	5.7%	27.1%	45.2%	-12.6 ppt	-15.4 ppt	-26.0 ppt
Net Margin	-6.9%	9.9%	16.3%	-6.6%	13.6%	N/A	-0.4 ppt	-3.7 ppt	N/A

Source: Company data, CMBIS estimates

**Figure 4: Base case valuation on risk-adjusted DCF valuation**

DCF Valuation (in Rmb mn)	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
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	(3,903)									
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>78.4</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						Cash flow summary					
YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E	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>	<b>Profit before tax</b>	<b>(382)</b>	<b>(186)</b>	<b>(42)</b>	<b>120</b>	<b>301</b>
VenusA-Valve	232	272	527	901	1369	Depreciation and amortization	29	38	27	27	27
VenusP-Valve	0	0	51	78	108	Change in working capital	(77)	(190)	(199)	(169)	(221)
TriGUARD3	0	3	19	46	81	Others	127	7	0	(18)	(45)
V8 and TAV8	1	1	3	5	8	Net income tax paid	(5)	3	0	(18)	(45)
Cost of sales	(39)	(49)	(94)	(141)	(206)	<b>Net cash from operating</b>	<b>(303)</b>	<b>(331)</b>	<b>(214)</b>	<b>(41)</b>	<b>62</b>
<b>Gross profit</b>	<b>195</b>	<b>227</b>	<b>506</b>	<b>889</b>	<b>1360</b>	Capex	(25)	20	50	50	50
Other income	15	118	70	84	83	Acquisition of subsidiaries	(6)	280	0	0	0
Selling & distribution expenses	(125)	(135)	(288)	(484)	(720)	Purchases of equity investments	0	23	0	0	0
Administrative expenses	(201)	(167)	(180)	(206)	(235)	Net purchases of financial assets	0	44	0	0	0
R&D expenses	(198)	(104)	(120)	(134)	(157)	Others	0	1	0	0	0
Other gains and losses	(45)	(122)	(30)	(30)	(30)	<b>Net cash from investing</b>	<b>(31)</b>	<b>320</b>	<b>50</b>	<b>50</b>	<b>50</b>
<b>Operating profit</b>	<b>(357)</b>	<b>(182)</b>	<b>(42)</b>	<b>120</b>	<b>301</b>	Net proceeds from shares issued	2,833	985	1,199	0	0
Net of impairment losses	(2)	0	0	0	0	Bank borrowing	(233)	0	0	0	0
Net finance costs	(22)	(4)	0	0	0	Loans to related parties	0	0	0	0	0
<b>Pre-tax profit</b>	<b>(382)</b>	<b>(186)</b>	<b>(42)</b>	<b>120</b>	<b>301</b>	Others	(23)	4	0	0	0
Income tax	1	3	0	(18)	(45)	<b>Net cash from financing</b>	<b>2,577</b>	<b>981</b>	<b>1,199</b>	<b>0</b>	<b>0</b>
Minority interests	(0)	(1)	0	0	0	FX changes	5	0	0	0	0
<b>Net profit to shareholders</b>	<b>(381)</b>	<b>(182)</b>	<b>(42)</b>	<b>102</b>	<b>256</b>	Net change in cash	2,243	330	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						Key ratios					
YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E	YE 31 Dec	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>	<b>Sales mix (%)</b>					
PP&E	60	100	142	184	226	VenusA-Valve	99	99	88	87	87
Goodwill	480	487	487	487	487	VenusP-Valve	0	0	8	8	7
Other intangible assets	185	233	214	195	176	TriGUARD3	0	1	3	4	5
Deferred tax assets	3	1	1	1	1	V8 and TAV8	1	0	1	1	0
Equity investments at fair value	30	7	7	7	7	<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
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>	<b>Profit &amp; loss ratios (%)</b>					
Inventories	25	60	78	98	115	Gross margin	83	82	84	86	87
Trade receivables	162	231	417	572	783	EBITDA margin	(142)	(56)	(2)	14	21
Prepayments, other receivables and other assets	303	35	35	35	35	Pre-tax margin	(164)	(68)	(7)	12	19
Cash and cash equivalents	2,414	2,968	3,903	3,812	3,824	Net margin	(163)	(66)	(7)	10	16
Others	0	67	67	67	67	Effective tax rate	0	2	0	15	15
<b>Current liabilities</b>	<b>568</b>	<b>406</b>	<b>410</b>	<b>415</b>	<b>423</b>	<b>Balance sheet ratios</b>					
Trade payables	1	5	10	15	22	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	Net	Net	Net	Net
Bank borrowing	120	0	0	0	0						
Others	41	31	31	31	31	<b>Returns (%)</b>					
<b>Non-current liabilities</b>	<b>55</b>	<b>56</b>	<b>56</b>	<b>56</b>	<b>56</b>	ROE	(13)	(5)	(1)	2	5
Lease liabilities	17	22	22	22	22	ROA	(10)	(4)	(1)	2	4
Deferred tax liabilities	37	33	33	33	33	<b>Per share data</b>					
Others	0	1	1	1	1	EPS (RMB)	(1.22)	(0.44)	(0.09)	0.23	0.58
<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>	DPS (RMB)	0.00	0.00	0.00	0.00	0.00
<b>Minority interest</b>	<b>9</b>	<b>42</b>	<b>42</b>	<b>42</b>	<b>42</b>	BVPS (RMB)	9.79	9.42	11.37	11.60	12.18
<b>Shareholders' equity</b>	<b>3,037</b>	<b>3,815</b>	<b>4,973</b>	<b>5,074</b>	<b>5,330</b>						

Source: Company data, CMBIS estimates

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