

**BUY (Maintain)**

<b>Target Price</b>	<b>HK\$73.80</b>
(Previous TP)	HK\$142.77)
<b>Up/Downside</b>	<b>+22.90%</b>
<b>Current Price</b>	<b>HK\$60.05</b>

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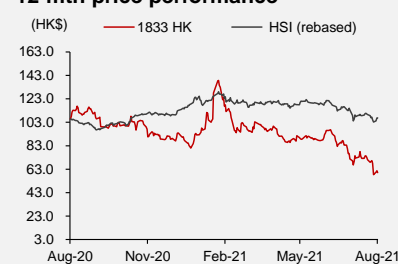
Mkt. Cap. (HK\$ mn)	68.895
Avg. 3mths t/o (HK\$ mn)	422.16
52W High/Low (HK\$)	148.5/55.55
Total Issued Shares (mn)	1,147

 Source: Bloomberg
**Shareholding Structure**

Ping An Insurance	41.31%
Employee	19.26%
Soft Bank	4.42%
Other shareholders	35.01%

 Source: HKEx, Bloomberg
**Share performance**

	Absolute	Relative
1-mth	-13.9%	-8.5%
3-mth	-31.4%	-24.2%
6-mth	-47.1%	-38.9%

 Source: Bloomberg
**12-mth price performance**

Source: Bloomberg

**Auditor: PWC****Related reports:**

1. Emphasis on its core online medical service capabilities – 4 Feb 2021
2. Endeavor to upgrade channels and services – 26 Jan 2021
3. Guidelines released for the reimbursement of online medical services - 4 Nov 2020

# PA Good Doctor (1833 HK)

## Increasing expenditures to support strategic expansion

■ **Topline in-line while bottom-line missed in 1H21.** PAGD reported 1H21 revenue growth of 39% YoY to RMB3.8bn, accounting for 41% of our full-year estimate. Medical service revenue (the core business) grew by 50.6% YoY to RMB1.07bn, driven by increase in subscription-based service and e-prescribing service revenue, contributing 28% of total revenue. Consumer healthcare revenue saw strong growth of 66.1% YoY to RMB713mn, fuelled by growth in health check services and dental and aesthetic medical products/services. Online mall segment grew by 27.9% YoY to RMB1.9bn, contributing 50% of total revenue. Blended GP margin declined by 3.1ppts to 26.8%. Net loss widened to RMB879.3mn in 1H21 (vs. RMB213.2mn in 1H20), due to large increase in SG&A expenses, which was attributable to increasing personnel across multiple business functions.

■ **Continued traffic growth underpinned by multi-channel expansion strategy.** As of Jun 2021, registered users increased by 7.5% HoH to 400.6mn and cumulative consultations increased by 17.8% HoH to 1.2bn. Cumulative paying users reached 32mn, up 69.6% YoY, with conversion rate of monthly paying users improved by 1.0ppt to 5.4% YoY. In our view, the fast traffic growth and accelerating monetization were underpinned by 1) strengthening alliance with PA group, which had a strong financial customer pool of c.220mn people including c.100mn insurance clients; 2) deepening corporate client coverage of 3,800 enterprises as of 1H21; and 3) full integrated O2O traffic referrals. As of 1H21, PAGD has established 10 self-run Internet hospitals and has reached agreements with 205 offline hospitals on co-constructed Internet hospital platforms.

■ **Regulatory changes continue to favour online medical service players.** In Apr 2021, the State Council reiterated permission of online sales of prescription drugs with assurance of e-prescription sources. In Jun 2021, NHC also reiterated continued support to promote internet healthcare services. We view this as positive signal for medical service players like PAGD, given its 1) rich in-house and external doctor resources, 2) extensive top-tier hospital network, and 3) continuously upgraded medical services to enable real prescription conversion and seamless care provision.

■ **Maintain BUY.** We trimmed our TP to HK\$73.80, based on a 10-year DCF model (WACC: 10.4%, terminal growth rate: 3.0%), to reflect in lower revenue growth and increasing operating expenses. We forecast revenue to grow by 41%/ 33%/ 31% YoY in FY21E/22E/23E and net losses of RMB1,792mn/ RMB1,626mn/ RMB1,094mn in FY21E/22E/23E. We maintain positive on the Company's growth outlook. **Risks:** Lower-than-expected user growth; regulatory crackdown.

**Earnings Summary**

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	5,065	6,866	9,662	12,818	16,780
YoY growth (%)	52	36	41	33	31
Net income (RMB mn)	(734)	(948)	(1,792)	(1,626)	(1,094)
EPS (RMB)	N/A	(0.92)	(1.56)	(1.42)	(0.95)
Consensus EPS (RMB)	(0.83)	(0.66)	(1.20)	(0.91)	(0.32)
P/S (x)	11.3	8.3	5.9	4.5	3.4
ROE	(7.4)	(7.4)	(11.9)	(12.1)	(8.9)
Net gearing (%)		Net cash	Net cash	Net cash	Net cash

Source: Company data, CMBIS estimates, Bloomberg

**Figure 1: Valuation on risk-adjusted DCF valuation**

DCF Valuation (in Rmb mn)	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
EBIT	(1,928)	(1,739)	(1,187)	(102)	1,354	2,166	3,357	5,035	7,301	10,221
Tax rate	-0.5%	0.0%	0.0%	-35.4%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%
EBIT*(1-tax rate)	(1,938)	(1,739)	(1,187)	(138)	1,151	1,841	2,853	4,280	6,206	8,688
+ D&A	50	59	65	70	73	116	180	271	393	550
- Change in working capital	312	218	135	169	171	273	424	635	921	1,290
- Capx	(80)	(80)	(80)	(80)	(80)	(80)	(80)	(80)	(80)	(80)
<b>FCFF</b>	<b>(1,655)</b>	<b>(1,542)</b>	<b>(1,066)</b>	<b>20</b>	<b>1,314</b>	<b>2,151</b>	<b>3,377</b>	<b>5,106</b>	<b>7,440</b>	<b>10,448</b>
<b>Terminal value</b>										<b>145,911</b>
<b>Terminal growth rate</b>										<b>3.0%</b>
<b>WACC</b>										<b>10.4%</b>
Cost of Equity										13.0%
Cost of Debt										5.0%
Equity Beta										1.0
Risk Free Rate										3.0%
Market Risk Premium										10.0%
Target Debt to Asset ratio										30.0%
Effective Corporate Tax Rate										15.0%
Terminal value (RMB mn)										54,373
Total PV (RMB mn)										63,783
Net debt (RMB mn)										(6,520)
Minority interest (RMB mn)										23
Equity value (RMB mn)										70,279
# of shares (mn)										1,147
Price per share (RMB per share)										61.26
<b>Price per share (HK\$ per share)</b>										<b>73.80</b>

Source: CMBIS estimates; Notes: Exchange rate for HK\$/RMB = 0.83

**Figure 2: Sensitivity analysis (HK\$)**

WACC	Terminal growth rate				
	2.0%	2.5%	3.0%	3.5%	4.0%
9.4%	79.65	84.48	90.07	96.61	104.36
9.9%	72.61	76.66	81.30	86.66	92.93
<b>10.4%</b>	66.50	69.92	<b>73.80</b>	78.25	83.40
10.9%	61.14	64.06	67.34	71.07	75.34
11.4%	56.43	58.93	61.72	64.88	68.46

Source: Company data, CMBIS estimates

**Figure 3: Peers' valuation**

Company	Ticker	Price LC	TP LC	Mkt cap LC mn	P/S (x)		P/E (x)		P/B (x)	
					FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
PA GOOD DOCTOR	1833 HK	60.05	73.80	68,895	5.9	4.5	N/A	N/A	4.0	4.5
JD HEALTH	6618 HK	75.80	NR	241,527	7.1	5.0	281.6	168.7	5.0	4.9
ALIBABA HEALTH	241 HK	11.54	NR	155,665	7.8	5.5	246.3	309.8	11.9	8.8
TELADOC HEALTH	TDOC US	145.08	NR	23,104	11.5	8.9	N/A	N/A	1.4	1.5
HEALTH CATALYST	HCAT US	52.92	NR	2,642	11.0	9.0	N/A	N/A	8.2	10.2
<b>Average</b>					<b>8.7</b>	<b>6.6</b>	<b>263.9</b>	<b>239.2</b>	<b>6.1</b>	<b>6.0</b>

Source: CMBIS estimates, Bloomberg, NR=Not rated

**Figure 4: CMBIS earnings revisions**

(RMB mn)	New			Old			Diff (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	9,662	12,818	16,780	9,348	12,929	18,029	3.4%	-0.9%	-6.9%
Gross profit	2,603	3,761	5,218	2,665	4,070	6,159	-2.3%	-7.6%	-15.3%
Operating profit	(1,909)	(1,719)	(1,167)	(1,475)	(1,200)	(893)	N/A	N/A	N/A
Net profit	(1,792)	(1,626)	(1,094)	(1,261)	(1,016)	(730)	N/A	N/A	N/A
EPS (RMB)	(1.56)	(1.42)	(0.95)	(1.10)	(0.89)	(0.64)	N/A	N/A	N/A
Gross margin	26.94%	29.34%	31.09%	28.51%	31.48%	34.16%	-1.56ppt	-2.13ppt	-3.07ppt
Operating margin	-19.76%	-13.41%	-6.95%	-15.78%	-9.28%	-4.95%	-3.98ppt	-4.12ppt	-2.00ppt
Net Margin	-18.55%	-12.68%	-6.52%	-13.49%	-7.86%	-4.05%	-5.06ppt	-4.82ppt	-2.47ppt

Source: Company data, CMBIS estimates

**Figure 5: CMBIS estimates vs consensus**

(RMB mn)	CMBIS			Consensus			Diff (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	9,662	12,818	16,780	9,014	11,897	15,606	7.2%	7.7%	7.5%
Gross profit	2,603	3,761	5,218	2,537	3,568	4,896	2.6%	5.4%	6.6%
Operating profit	(1,909)	(1,719)	(1,167)	(1,475)	(1,120)	(686)	N/A	N/A	N/A
Net profit	(1,792)	(1,626)	(1,094)	(1,255)	(911)	(463)	N/A	N/A	N/A
EPS (RMB)	(1.56)	(1.42)	(0.95)	(1.20)	(0.91)	(0.32)	N/A	N/A	N/A
Gross margin	26.94%	29.34%	31.09%	28.15%	29.99%	31.37%	-1.21ppt	-0.65ppt	-0.28ppt
Operating margin	-19.76%	-13.41%	-6.95%	-16.36%	-9.41%	-4.40%	-3.39ppt	-3.99ppt	-2.55ppt
Net Margin	-18.55%	-12.68%	-6.52%	-13.92%	-7.65%	-2.97%	-4.63ppt	-5.03ppt	-3.55ppt

Source: Company data, CMBIS estimates

## Financial Statements

### Income statement

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Revenue</b>	<b>5,065</b>	<b>6,866</b>	<b>9,662</b>	<b>12,818</b>	<b>16,780</b>
Online medical services	858	1,565	2,438	3,779	5,669
Consumer healthcare	1,112	1,383	2,277	3,188	4,304
Health mall	2,902	3,714	4,707	5,555	6,443
Health management & wellness interaction	193	204	239	296	364
Cost of sales	(3,894)	(5,002)	(7,058)	(9,057)	(11,563)
<b>Gross profit</b>	<b>1,171</b>	<b>1,864</b>	<b>2,603</b>	<b>3,761</b>	<b>5,218</b>
Selling & marketing expenses	(1,207)	(1,587)	(2,565)	(3,205)	(3,859)
Administrative expenses	(1,075)	(1,017)	(2,068)	(2,435)	(2,685)
Other income	42	205	213	160	160
Other (losses)/gains	109	(385)	(91)	0	0
<b>Operating profit</b>	<b>(959)</b>	<b>(919)</b>	<b>(1,909)</b>	<b>(1,719)</b>	<b>(1,167)</b>
Finance costs - net	253	100	145	113	93
Gain/(loss) from associates and JV	(27)	(122)	(19)	(20)	(20)
<b>Profit before tax</b>	<b>(734)</b>	<b>(941)</b>	<b>(1,783)</b>	<b>(1,626)</b>	<b>(1,094)</b>
Income tax expense	(13)	(7)	(9)	0	0
<b>Total net profit</b>	<b>(747)</b>	<b>(949)</b>	<b>(1,792)</b>	<b>(1,626)</b>	<b>(1,094)</b>
Minority Interests	(13)	(0)	0	0	0
<b>Attributable profit</b>	<b>(734)</b>	<b>(948)</b>	<b>(1,792)</b>	<b>(1,626)</b>	<b>(1,094)</b>

### Cash flow summary

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Profit before tax</b>	(747)	(949)	(1,783)	(1,626)	(1,094)
Depreciation of PP&E	146	170	50	59	65
Impairment of intangible asset	23	0	25	25	25
Change in working capital	376	(631)	269	266	182
Others	(50)	481	158	117	162
Finance costs - net	(253)	(174)	(145)	(113)	(93)
<b>Operating cash flow</b>	<b>(504)</b>	<b>(1,102)</b>	<b>(1,426)</b>	<b>(1,271)</b>	<b>(752)</b>
Capex	(133)	(73)	(80)	(80)	(80)
Acquisition of subsidiaries	0	0	0	0	0
Other investing activities	4,610	(2,424)	152	119	99
<b>Investing cash flow</b>	<b>4,477</b>	<b>(2,497)</b>	<b>72</b>	<b>39</b>	<b>19</b>
Net proceeds from shares issued	76	7,004	0	0	0
Bank borrowing	0	0	(7)	(6)	(6)
Listing expenses	0	0	0	0	0
Other financing activities	(67)	(82)	0	0	0
<b>Financing cash flow</b>	<b>9</b>	<b>6,922</b>	<b>(7)</b>	<b>(6)</b>	<b>(6)</b>
Net change in cash	3,981	3,323	(1,361)	(1,239)	(739)
Cash at the beginning	926	4,965	7,920	6,559	5,320
<b>Cash flow at the end</b>	<b>4,965</b>	<b>7,920</b>	<b>6,559</b>	<b>5,320</b>	<b>4,581</b>

### Balance sheet

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Non-current assets</b>	<b>3,901</b>	<b>3,307</b>	<b>3,293</b>	<b>3,269</b>	<b>3,239</b>
Goodwill	967	970	970	970	970
PP&E	186	166	196	217	232
Right-of-use assets	94	115	115	115	115
Other intangible assets	106	102	77	52	27
Prepayments and other receivables	7	77	77	77	77
Financial assets at FV	1,532	587	587	587	587
Others	1,196	1,456	1,466	1,467	1,462
<b>Current assets</b>	<b>8,478</b>	<b>15,256</b>	<b>13,539</b>	<b>12,831</b>	<b>12,684</b>
Inventories	75	160	118	166	213
Accounts and other receivables	649	1,058	854	1,201	1,594
Contract assets	141	102	102	102	102
Bank balances and cash	0	0	0	0	0
Others	7,613	13,935	12,466	11,362	10,775
<b>Current liabilities</b>	<b>2,665</b>	<b>2,668</b>	<b>2,624</b>	<b>3,373</b>	<b>4,100</b>
Short-term borrowings	0	0	0	0	0
Trade and other payables	1,777	1,863	1,820	2,568	3,295
Contract liabilities	837	730	730	730	730
Others	51	75	75	75	75
<b>Non-current liabilities</b>	<b>44</b>	<b>39</b>	<b>39</b>	<b>39</b>	<b>39</b>
Lease liabilities	44	39	39	39	39
Trade and other payables	0	0	0	0	0
<b>Total net assets</b>	<b>9,669</b>	<b>15,856</b>	<b>14,168</b>	<b>12,688</b>	<b>11,784</b>
<b>Minority interest</b>	<b>21</b>	<b>23</b>	<b>23</b>	<b>23</b>	<b>24</b>
<b>Shareholders' equity</b>	<b>9,669</b>	<b>15,856</b>	<b>14,168</b>	<b>12,688</b>	<b>11,784</b>

### Key ratios

YE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Sales mix (%)</b>					
Online medical services	16.9	22.8	25.2	29.5	33.8
Consumer healthcare	22.0	20.1	23.6	24.9	25.6
Health mall	57.3	54.1	48.7	43.3	38.4
Health mgmt & wellness interaction	3.8	3.0	2.5	2.3	2.2
Total	100	100	100	100	100
<b>Profit &amp; loss ratios (%)</b>					
Gross margin	23	27	27	29	31
EBITDA margin	(17)	(13)	(19)	(13)	(7)
Pre-tax margin	(14)	(14)	(18)	(13)	(7)
Net margin	(14)	(14)	(19)	(13)	(7)
Effective tax rate	(2)	(1)	(0)	0	0
<b>Balance sheet ratios</b>					
Current ratio (x)	3	6	5	4	3
Trade receivables	39	45	45	45	45
Trade payables turnover	153	133	133	133	133
Net debt to total equity	Net cash	Net cash	Net cash	Net cash	Net cash
<b>Returns (%)</b>					
ROE	(7.4)	(7.4)	(11.9)	(12.1)	(8.9)
ROA	(5.9)	(6.1)	(10.1)	(9.9)	(6.8)
<b>Per share value</b>					
EPS (RMB)	(0.73)	(0.92)	(1.56)	(1.42)	(0.95)
DPS (RMB)	0.00	0.00	0.00	0.00	0.00
BVP (RMB)	9.66	15.40	12.35	11.06	10.27

Source: Company data, CMBIS estimates

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