

Jinxin Fertility (1951 HK)

Better-than-expected recovery from COVID-19 impact

- 1H21 earnings beat.** Jinxin Fertility reported 1H21 revenue of RMB859.3mn, increased 40.4% YoY and accounted for 48% of our full-year estimate. Thanks to the gradual ease of COVID pandemic, revenue from China/ the US increased by 42.2%/ 35.6% YoY in 1H21, respectively. Non-IFRS adjusted attributable net profit grew 36.2% YoY to RMB228mn, accounting for 49% of our full-year estimate.
 - Strong recovery in both domestic and overseas regions.** Jinxin completed a total of 13,164 IVF treatment cycles in 1H21, increased 36.5% YoY (vs -18% YoY in 2020). The fast recovery was mainly due to the ease of pandemic and improvement in operation efficiency of the Company. Chengdu Xi'nian Hospital and Jinjiang IVF Center grew 23.9% YoY to RMB409.6mn, primarily driven by 20% YoY growth in IVF cycles and higher penetration VIP services. In 1H21, the penetration rate of VIP services in Chengdu network hospitals was 12%, while VIP services revenue surged 44% YoY. During the same period, revenue from Shenzhen hospital rallied 72% YoY, contributing 24% of total revenue, while the US network hospitals also recorded a 36% YoY revenue growth, accounting for 25% of total revenue.
 - Efficient expansion through acquisitions.** YTD, Jinxin has acquired four new IVF licenses located in Yunan, Hong Kong and US. The mgmt aims to complete 1~2 license acquisitions in mainland China every year and to expand its total license number in mainland China from 6 licenses to 13~15 licenses by 2025E. In addition, Jinxin has consistently proved its superior management capabilities. Post the acquisition in Jul 2020, Wuhan Jinxin Hospital completed 583 IVF cycles in 1H21 (vs 343 cycles in 2019) and targets to achieve over 1,000 IVF cycles within this year.
 - Maintain BUY.** With over RMB3bn cash on hand as of mid-2021, we believe Jinxin will further accelerate its acquisition pace. Given better-than-expected business recovery in 1H21, we revised up adjusted attributable net profit by 2.8%/ 7.7%/ 6.2% in FY21E/ 22E / 23E. We slightly lifted our DCF-based TP of from HK\$22.26 to HK\$22.72 (WACC: 9.5%, terminal growth rate: 3.0%).
- Catalyst:** Acquisitions of quality assets; **Risk:** Impact from COVID-19 pandemic.

Earnings Summary

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	1,648	1,426	1,856	2,432	3,027
YoY growth (%)	79	-13	30	31	24
Net profit (RMB mn)	410	252	343	531	700
EPS (RMB)	0.19	0.10	0.14	0.21	0.28
YoY growth (%)	N/A	0	31	54	32
Consensus EPS (RMB)	N/A	N/A	0.15	0.22	0.31
P/E (x)	58.3	103.2	79.0	51.2	38.8
P/B (x)	3.1	3.5	3.1	2.9	2.7
Yield (%)	0.63	0.00	0.00	0.00	0.00
ROE (%)	6.7	3.3	4.2	5.8	7.2
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price	HK\$22.72
(Previous TP)	HK\$22.26
Up/Downside	+74.24%
Current Price	HK\$13.04

China Healthcare Sector

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Mkt. Cap. (HK\$ mn)	32,699
Avg. 3mths t/o (HK\$ mn)	379.41
52W High/Low (HK\$)	24.55/ 9.21
Total Issued Shares (mn)	2,508

Source: Bloomberg

Shareholding Structure

Management	26.02%
Warburg Pincus	18.36%
HRC Physician	14.82%
Other institutional investors	22.58%
Employee holdings	1.35%
Public shareholders	16.87%

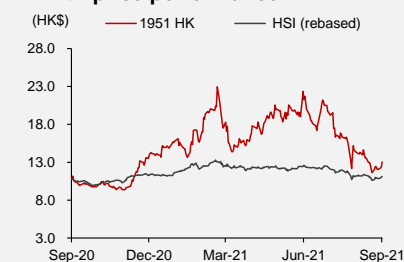
Source: HKEx, Bloomberg

Share performance

	Absolute	Relative
1-mth	-15.2%	-15.0%
3-mth	-44.7%	-37.7%
6-mth	-29.5%	-21.0%

Source: Bloomberg

12-mth price performance



Source: Bloomberg

Auditor: Deloitte

Web-site: www.jxr-fertility.com

Related reports:

- Acquisition of two sizable IVF hospitals in Yunnan Province – 21 Jun 2021
- Fast recovery from COVID-19 impact – 30 Mar 2021
- Enhancing leading position by strong organic growth and efficient M&As – 20 Nov 2020

Figure 1: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	1,856	2,432	3,027	1,801	2,329	2,899	3%	4%	4%
Gross Profit	798	1,143	1,453	810	1,095	1,391	-2%	4%	4%
Operating Profit	474	732	967	531	751	987	-11%	-3%	-2%
Net profit	343	531	700	385	544	715	-11%	-3%	-2%
EPS (RMB cents)	14	21	28	15	22	29	-11%	-3%	-2%
Gross Margin	43.00%	47.00%	48.00%	45.00%	47.00%	48.00%	-2.00 ppt	0.00 ppt	0.00 ppt
Operating Margin	25.55%	30.12%	31.94%	29.50%	32.27%	34.07%	-3.95 ppt	-2.15 ppt	-2.12 ppt
Net Margin	18.51%	21.82%	23.14%	21.37%	23.37%	24.68%	-2.86 ppt	-1.56 ppt	-1.54 ppt

Source: Company data, CMBIS estimates

Figure 2: CMBIS estimates vs consensus

RMB mn	CMBIS			Consensus			Diff (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	1,856	2,432	3,027	1,761	2,213	2,737	5%	10%	11%
Gross Profit	798	1,143	1,453	788	1,030	1,295	1%	11%	12%
Operating Profit	474	732	967	452	646	867	5%	13%	12%
Net profit	343	531	700	357	533	708	-4%	0%	-1%
EPS (RMB cents)	14	21	28	15	22	31	-6%	-2%	-8%
Gross Margin	43.00%	47.00%	48.00%	44.74%	46.54%	47.31%	-1.74 ppt	0.46 ppt	0.69 ppt
Operating Margin	25.55%	30.12%	31.94%	25.66%	29.20%	31.66%	-0.11 ppt	0.92 ppt	0.28 ppt
Net Margin	18.51%	21.82%	23.14%	20.25%	24.07%	25.85%	-1.75 ppt	-2.25 ppt	-2.71 ppt

Source: Company data, CMBIS estimates

Figure 3: Risk-adjusted DCF valuation

DCF Valuation (in Rmb mn)	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
EBIT	451	702	928	1,248	1,672	2,232	2,969	3,934	5,192	6,828
Tax rate	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%
EBIT*(1-tax rate)	338	527	696	936	1,254	1,674	2,227	2,950	3,894	5,121
+ D&A	134	139	139	159	181	206	232	261	293	326
- Change in working capital	-252	-13	-0	-0	-0	-1	-1	-1	-1	-1
- Capex	-150	-100	-100	-100	-100	-100	-100	-100	-100	-100
FCFF	70	553	734	994	1,335	1,779	2,358	3,111	4,086	5,347
Terminal value										84,595
Terminal growth rate										3.0%
WACC										9.5%
Cost of Equity										12.0%
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										26.0%
Terminal value										34,104
Total PV										44,471
Net debt										-3,009
Minority interest										192
Equity value										47,288
# of shares (mn)										2,508
Price per share (in Rmb)										18.86
Price per share (in HK\$)										22.72

Source: CMBIS estimates

Financial Summary

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	1,648	1,426	1,856	2,432	3,027	Profit before tax	548	349	474	732	967
ARS	932	979	1,301	1,679	2,147	Depreciation for plant and equipment	66	76	80	85	85
Management service fee	648	375	469	657	773	Change in working capital	(74)	(108)	(252)	(13)	(0)
Ancillary medical services	68	72	86	96	107	Others	38	41	13	6	(3)
Cost of sales	(832)	(860)	(1,058)	(1,289)	(1,574)	Tax paid	(126)	(51)	(119)	(183)	(242)
Gross profit	817	566	798	1,143	1,453	Net cash from operating activities	453	308	196	627	807
Other income	63	74	60	67	76	Capex	(270)	(210)	(150)	(100)	(100)
Other expenses	(2)	(6)	(5)	(5)	(5)	Acquisition of subsidiaries	0	0	0	0	0
Other losses	28	57	11	10	10	Other investing activities	(2,436)	79	(102)	48	57
R&D expenses	(13)	(11)	(15)	(19)	(24)	Net cash from investing activities	(2,706)	(131)	(252)	(52)	(43)
Administrative expenses	(211)	(275)	(306)	(377)	(439)	Net proceeds from shares issued	2,934	0	1,065	0	0
Listing expenses	(63)	0	0	0	0	Bank borrowing	0	163	0	0	0
Finance cost	(9)	(13)	(18)	(18)	(18)	Advance from related parties	30	62	0	0	0
Profit before tax	548	349	474	732	967	Other financing activities	(1,317)	(280)	0	0	0
Income tax expense	(127)	(89)	(119)	(183)	(242)	Net cash from financing activities	1,647	(56)	1,065	0	0
Total net profit	421	260	356	549	725	Net change in cash	(606)	121	1,009	575	764
Minority Interests	(11)	(9)	(12)	(19)	(25)	Cash at the beginning of the year	1,184	580	682	1,691	2,266
Profit attributable to shareholders	410	252	343	531	700	Cash at the end of the year	580	682	1,691	2,266	3,029

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	5,515	6,511	6,670	6,632	6,593	Sales mix (%)					
Plant and equipment	857	1,056	1,126	1,141	1,156	ARS	56.5	68.6	70.1	69.1	70.9
Goodwill	809	890	1,033	1,033	1,033	Management service fee	39.3	26.3	25.3	27.0	25.5
License	388	786	768	750	733	Ancillary medical services	4.1	5.1	4.6	3.9	3.5
Contractual right to provide management services	1,963	1,839	1,839	1,839	1,839	Total	100	100	100	100	100
Trademarks	1,305	1,256	1,256	1,256	1,256	Profit & loss ratios (%)					
Others	193	684	648	612	576	Gross margin	50	40	43	47	48
Current assets	3,426	2,652	3,621	4,211	4,990	EBITDA margin	38	31	32	35	35
Inventories	26	25	29	35	43	Pre-tax margin	33	24	26	30	32
Accounts and other receivables	46	69	25	33	41	Net margin	25	18	19	22	23
Amounts due from related parties	50	81	81	81	81	Effective tax rate	23	25	25	25	25
Bank balances and cash	580	682	1,691	2,266	3,029	Balance sheet ratios					
Others	2,725	1,795	1,795	1,795	1,795	Current ratio (x)	8	5	14	16	18
Current liabilities	436	555	263	264	280	Trade receivables turnover days	3	2	5	5	5
Accounts and other payables	320	362	70	71	86	Trade payables turnover days	50	24	24	20	20
Capital contribution deposits	0	0	0	0	0	Net debt to total equity ratio (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Amounts due to related parties	41	68	68	68	68	Returns (%)					
Tax payables	46	61	61	61	61	ROE	6.7	3.3	4.2	5.8	7.2
Non-current liabilities	863	1,146	1,146	1,146	1,146	ROA	5.3	2.8	3.5	5.0	6.2
Deferred rent	0	0	0	0	0	Per share value					
Deferred tax liabilities	709	791	791	791	791	EPS (RMB)	0.19	0.10	0.14	0.21	0.28
Total net assets	7,642	7,462	8,883	9,432	10,158	DPS (RMB)	0.07	0.00	0.00	0.00	0.00
Minority interest	116	179	192	210	235	BVP (RMB)	3.46	3.11	3.54	3.76	4.05
Shareholders' equity	7,527	7,283	8,692	9,222	9,923						

Source: Company data, CMBIS estimates

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