

Jinxin Fertility (1951 HK)

Significant synergies with the OB/GYN & pediatrics business

Jinxin Fertility announced the acquisition of 100% stake in Sichuan WCH (錦欣婦兒), the largest standalone private medical institution of OB/GYN & pediatrics in China. The total consideration is RMB3.0bn which will be settled 50% in cash and 50% in a convertible bond. The CB has a 0.75% coupon rate per annum and its conversion price is HK\$15.00 per share, representing a 20% premium of 19 Oct's closing price. Sichuan WCH reported revenue of RMB225.0mn (+22% YoY) and net profit of RMB46.9mn (+168% YoY) in 1H21. The management of Sichuan WCH guaranteed net profit of above RMB100mn/ RMB130mn for FY21E/22E, respectively, implying a PE multiple of approximately 30x for FY21E and 23x for FY22E. We estimate the transaction will be completed before the end of 2021. As the transaction will be significantly EPS accretive, we raised DCF-based TP from HK\$22.72 to HK\$25.44.

- Scarce asset of high quality in the OB/GYN & pediatrics area.** Sichuan WCH is the largest standalone private Class III Grade A hospital of OB/GYN & pediatrics in China with more than a 70-year operating track record. Since 2018, the hospital has ranked top 3 in terms of birth volume delivered in Greater Chengdu area, accounting for approximately 10% of total birth volume in Chengdu. In 2021, the Company is expected to deliver 12,500 childbirths, including 1,100 IVF-treated newborns. In 1H21, 549 childbirths of Sichuan WCH came from the IVF treatments of Jinxin Fertility. Sichuan WCH's co-CEO Duan Tao (段濤), is one of the most renowned experts in OB/GYN & pediatrics area in China, who is former president of Shanghai First Maternity and Infant Hospital Affiliated to Tongji University (同濟大學附屬上海市第一婦嬰保健院).
- Significant synergies between ARS and OB/GYN & pediatrics business.** Post the acquisition, Jinxin will extend the value chain to provide integrated services including pregnancy preparation, ARS, childbirth and postpartum, enhancing customer loyalty and maximizing customer's life-time-value, the regional influence and promoting a costless customer conversion (RMB56k for ARS service vs up to RMB170k for whole life cycle services). We also expect significant cost efficiencies from the economy-of-scale operation, which enhances bargaining power to supply chain and lowers user acquisition costs thanks to strong brand awareness. Furthermore, with integrated business model, the Company will expand its ARS hospital network by either self-built Class III Grade A hospitals or applying for an ARS license after acquisition of OB/GYN & pediatrics hospitals.
- Maintain BUY.** We believe Jinxin will replicate its successful business model in Chengdu to other regions where Jinxin already had footprint, including Shenzhen, Wuhan, Kunming, etc. Meanwhile, acquisition will continue to drive the Company's geographic expansion. Factoring in the acquisition of Sichuan WCH, we revised up adjusted attributable net profit by 0%/ 16%/ 15% in FY21E/ 22E / 23E and lifted our DCF-based TP from HK\$22.72 to HK\$25.44 (WACC: 9.5%, terminal growth rate: 3.0%).

BUY (Maintain)

Target Price **HK\$25.44**
 (Previous TP) **HK\$22.72**
Up/Downside **+91.88%**
Current Price **HK\$13.26**

China Healthcare Sector

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Mkt. Cap. (HK\$ mn)	33,251
Avg. 3mths t/o (HK\$ mn)	227.12
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%

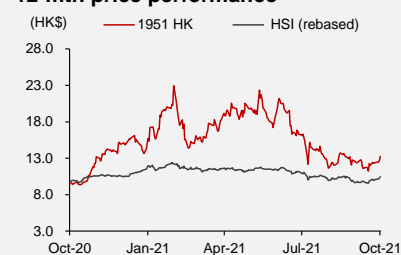
Source: HKEx, Bloomberg

Share performance

	Absolute	Relative
1-mth	-0.3%	-3.7%
3-mth	-21.5%	-16.3%
6-mth	-33.5%	-24.9%

Source: Bloomberg

12-mth price performance



Source: Bloomberg

Auditor: Deloitte

Web-site: www.jxr-fertility.com

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Earnings Summary

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	1,648	1,426	1,865	2,974	3,678
YoY growth (%)	79	-13	31	59	24
Net profit (RMB mn)	410	252	343	618	803
EPS (RMB)	0.19	0.10	0.14	0.25	0.32
YoY growth (%)	N/A	0	30	80	30
Consensus EPS (RMB)	N/A	N/A	0.15	0.22	0.28
P/E (x)	59.3	105.0	80.5	44.7	34.4
P/B (x)	3.2	3.5	3.1	2.9	2.7
Yield (%)	0.62	0.00	0.00	0.00	0.00
ROE (%)	6.7	3.3	4.2	6.7	8.1
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

Figure 1: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	1,865	2,974	3,678	1,856	2,432	3,027	0%	22%	22%
Gross Profit	802	1,398	1,765	798	1,143	1,453	0%	22%	22%
Operating Profit	473	853	1,109	474	732	967	0%	16%	15%
Adjusted Net profit	480	777	981	480	685	873	0%	13%	12%
EPS (RMB cents)	14	25	32	14	21	28	0%	16%	15%
Gross Margin	43.00%	47.00%	48.00%	43.00%	47.00%	48.00%	0.00 ppt	0.00 ppt	0.00 ppt
Operating Margin	25.38%	28.69%	30.14%	25.55%	30.12%	31.94%	-0.17 ppt	-1.43 ppt	-1.80 ppt
Net Margin	25.74%	26.13%	26.66%	25.84%	28.18%	28.85%	-0.11 ppt	-2.05 ppt	-2.19 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	1,865	2,974	3,678	1,789	2,254	2,774	4%	32%	33%
Gross Profit	802	1,398	1,765	760	1,023	1,322	6%	37%	34%
Operating Profit	473	853	1,109	436	624	845	9%	37%	31%
Adjusted Net profit	480	777	981	385	546	704	25%	42%	39%
EPS (RMB cents)	14	25	32	15	22	28	-9%	13%	14%
Gross Margin	43.00%	47.00%	48.00%	42.46%	45.37%	47.66%	+0.54 ppt	+1.63 ppt	+0.34 ppt
Operating Margin	25.38%	28.69%	30.14%	24.38%	27.68%	30.45%	+1.00 ppt	+1.01 ppt	-0.31 ppt
Net Margin	25.74%	26.13%	26.66%	21.53%	24.21%	25.36%	+4.21 ppt	+1.92 ppt	+1.30 ppt

Source: Company data, CMBIS estimates

Figure 3: Peers' valuation

Company	Ticker	Last Price (LC)	Mkt cap LC mn	PER(x)		PBR(x)		EV/EBITDA (x)		ROE(%)	
				FY21E	FY22E	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Jinxin Fertility	1951	13.26	33,251	80.5	44.7	3.1	2.9	44.5	26.0	4.2	6.7
Hygeia Healthcare	6078	70.15	43,353	85.7	58.2	7.8	6.9	58.4	41.2	9.3	12.3
Chaoju Eye Care	2219	8.72	6,170	28.7	21.7	2.1	1.9	N/A	N/A	7.3	8.8
Aier Eye Hospital	300015	46.81	253,060	101.8	77.4	20.5	17.2	59.0	46.6	20.6	22.5
Topchoice Medical	600763	232.40	74,517	100.4	76.0	25.8	19.3	67.5	51.2	26.2	25.9
Meinian Onehealth	002044	7.37	28,848	42.6	29.8	3.3	3.1	N/A	N/A	8.6	10.2
Average :				73.3	51.3	10.4	8.5	57.3	41.2	12.7	14.4

Source: Bloomberg (As at 20 Oct 2021)

Figure 3: Risk-adjusted DCF valuation

DCF Valuation (in Rmb mn)	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
EBIT	453	838	1,084	1,459	1,954	2,609	3,470	4,598	6,069	7,981
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)	340	628	813	1,094	1,466	1,957	2,603	3,448	4,552	5,986
+ D&A	134	139	139	159	181	206	232	261	293	326
- Change in working capital	-252	-13	-0	-0	-1	-1	-1	-1	-1	-1
- Capx	-150	-100	-100	-100	-100	-100	-100	-100	-100	-100
FCFF	71	654	852	1,152	1,546	2,062	2,734	3,609	4,744	6,211
Terminal value										98,275
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										39,619
Total PV										51,648
Net debt										-1,498
Minority interest										192
Equity value										52,955
# of shares (mn)										2,508
Price per share (in Rmb)										21.12
Price per share (in HK\$)										25.44

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	1648	1426	1865	2974	3678	Profit before tax	548	349	473	853	1109
ARS	932	979	1310	1690	2161	Depreciation for PP&E	66	76	80	85	85
Management fee	648	375	469	614	722	Change in working capital	(74)	(108)	(252)	(13)	(0)
Ancillary medical	68	72	86	96	107	Others	38	41	20	13	4
Cost of sales	(832)	(860)	(1063)	(1576)	(1912)	Tax paid	(126)	(51)	(118)	(213)	(277)
Gross profit	817	566	802	1398	1765	Net cash from operating activities	453	308	202	725	920
Other income	63	74	53	60	68	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	Others	(2436)	79	(1609)	41	49
R&D expenses	(13)	(11)	(15)	(24)	(29)	Net cash from investing activities	(2706)	(131)	(1759)	(59)	(51)
Administrative expenses	(211)	(275)	(308)	(476)	(570)	Net proceeds from shares issued	2934	0	1056	0	0
Listing expenses	(63)	0	0	0	0	Bank borrowing	0	163	1500	0	0
Finance cost	(9)	(13)	(14)	(25)	(25)	Advance from related parties	30	62	0	0	0
Profit before tax	548	349	473	853	1109	Others	(1317)	(280)	(0)	0	0
Income tax expense	(127)	(89)	(118)	(213)	(277)	Net cash from financing activities	1647	(56)	2556	0	0
Total net profit	421	260	355	640	831	Net change in cash	(606)	121	999	666	870
Minority Interests	(11)	(9)	(12)	(22)	(28)	Cash at the beginning	1184	580	682	1681	2347
Profit attributable to shareholders	410	252	343	618	803	Cash at the end	580	682	1681	2347	3216
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	8,170	8,132	8,093	Sales mix (%)					
Plant and equipment	857	1,056	1,126	1,141	1,156	ARS	56.5	68.6	70.2	56.8	58.8
Goodwill	809	890	2,533	2,533	2,533	Management fee	39.3	26.3	25.2	20.7	19.6
License	388	786	768	750	733	Ancillary services	4.1	5.1	4.6	3.2	2.9
Contractual right to provide management services	1,963	1,839	1,839	1,839	1,839	Total	100	100	100	81	81
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	3,612	4,307	5,195	EBITDA margin	38	31	31	33	33
Inventories	26	25	29	43	52	Pre-tax margin	33	24	25	29	30
Accounts and other receivables	46	69	26	41	50	Net margin	25	18	18	21	22
Amounts due from related parties	50	81	81	81	81	Effective tax rate	23	25	25	25	25
Bank balances and cash	580	682	1,681	2,347	3,216	Balance sheet ratios					
Others	2,725	1,795	1,795	1,795	1,795	Current ratio (x)	8	5	2	2	3
Current liabilities	436	555	1,763	1,780	1,798	Trade receivables turnover days	3	2	5	5	5
Accounts and other payables	320	362	70	86	105	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	6.7	8.1
Non-current liabilities	863	1,146	1,146	1,146	1,146	ROA	5.3	2.8	3.3	5.1	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	0.25	0.32
Total net assets	7,642	7,462	8,873	9,513	10,344	DPS (RMB)	0.07	0.00	0.00	0.00	0.00
Minority interest	116	179	192	213	242	BVP (RMB)	3.46	3.11	3.54	3.79	4.13
Shareholders' equity	7,527	7,283	8,681	9,300	10,103						

Source: Company data, CMBIS estimates

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