

BUY (Maintain)

Target Price	HK\$57.00
(Previous TP)	HK\$73.80
Up/Downside	+70.40%
Current Price	HK\$33.45

China Healthcare Sector

Jill Wu, CFA
 (852) 3900 0842
 jillwu@cmbi.com.hk

Mkt. Cap. (HK\$ mn)	38,377
Avg. 3mths t/o (HK\$ mn)	389.93
52W High/Low (HK\$)	148.5/29.45
Total Issued Shares (mn)	1,147

Source: Bloomberg

Shareholding Structure

Ping An Insurance Management	38.43%
Hopson	18.33%
Other shareholders	9.02%
	34.22%

Source: HKEx, Bloomberg

Share performance

	Absolute	Relative
1-mth	-32.4%	-33.2%
3-mth	-49.5%	-49.3%
6-mth	-60.7%	-56.8%

Source: Bloomberg

12-mth price performance

Source: Bloomberg

Auditor: PWC**Related reports:**

- Increasing expenditures to support strategic expansion – 26 Aug 2021
- Emphasis on its core online medical service capabilities – 4 Feb 2021
- Endeavor to upgrade channels and services – 26 Jan 2021
- Guidelines released for the reimbursement of online medical services - 4 Nov 2020

PA Good Doctor (1833 HK)

Adopting new strategy for high quality growth

- Adopting new strategy for high quality growth.** PAGD announced revision of its corporate strategy, which is the so called the upgraded Strategy 2.0. Management emphasized PAGD's strategic focus on corporate clients, which is a critical step for the Company to further grow its high-margin business.
- Strategic emphasis on corporate clients while leveraging family doctor services to connect corporate and individual customers.** PAGD plans to leverage resources of PA Group to penetrate B-end clients, through which PAGD can further access the extensive C-end client base. PA Group has a large corporate customer base which covers c. 70mn employees in China. We believe the strategic shift towards corporate clients will allow PAGD to generate high-margin revenue with higher ARPU and lower traffic acquisition cost. As of Jun 2021, 48% of PAGD's traffic was from B-end, indicating initial success of the new strategy. Moreover, PAGD aims to provide integrated family doctor membership services, linking all aspects of the healthcare service chain. PAGD expects its family doctor membership services to satisfy 80% of customers' healthcare needs by providing services covering health management, chronic disease management, offline medical services, etc.
- Limited regulatory impact on PAGD.** In Oct, National Health Commission (NHC) published a draft regulatory document of "Regulations on Internet Healthcare", imposing tighter regulation over China's fast-growing internet healthcare industry. The rules require physicians to authenticate their real identity before providing consultation to ensure real-person services. Using substitutes, or artificial intelligence software, will not be allowed for such services anymore. In addition, the rules indicate physician's income must not be linked to income from drugs and medical examinations. We think the tightening regulations on internet healthcare will benefit leading players and to help the sustainable development of the industry. As of Sep 2021, PAGD owns a sizable 2,000+ internal medical team as well as 465,000+ external health specialists, which allows PAGD to provide quality online healthcare services. Meanwhile, PAGD doesn't rely on prescription drug sales, which only accounted for 15% of its total 1H21 revenue. With the implementation of its Strategy 2.0, we believe majority of PAGD's revenue will be driven by membership services, instead of drug sales.
- Maintain BUY.** Due to the strategy adjustment, PAGD will sacrifice certain near-term earnings for higher long-term growth. Thus, we trimmed our TP from HK\$73.80 to HK\$57.00, based on a 10-year DCF model (WACC: 9.5%, terminal growth rate: 3.0%). We forecast revenue to grow by 7%/20%/26% YoY in FY21E/22E/23E and net losses of RMB1,542mn/RMB977mn/RMB575mn in FY21E/22E/23E.

Earnings Summary

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	5,065	6,866	7,355	8,797	11,082
YoY growth (%)	52	36	7	20	26
Net income (RMB mn)	(734)	(948)	(1,542)	(977)	(575)
EPS (RMB)	N/A	(0.92)	(1.34)	(0.85)	(0.50)
Consensus EPS (RMB)			(1.40)	(1.07)	(0.68)
P/S (x)	11.3	8.3	4.3	3.6	2.9
ROE	(7.4)	(7.4)	(10.2)	(7.0)	(4.3)
Net gearing (%)	Net cash	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	(1,679)	(1,098)	(684)	96	771	1,233	1,912	2,868	4,158	5,822
Tax rate	-0.6%	0.0%	0.0%	19.8%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%
EBIT*(1-tax rate)	(1,688)	(1,098)	(684)	77	655	1,048	1,625	2,438	3,535	4,948
+ D&A	50	59	65	70	73	116	180	271	393	550
- Change in working capital	312	27	66	96	143	229	355	533	772	1,081
- Capex	(80)	(80)	(80)	(80)	(80)	(80)	(80)	(80)	(80)	(80)
FCFF	(1,406)	(1,092)	(633)	163	791	1,314	2,081	3,161	4,619	6,499
Terminal value										102,983
Terminal growth rate										3.0%
WACC										9.5%
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										40.0%
Effective Corporate Tax Rate										15.0%
Terminal value (RMB mn)										41,555
Total PV (RMB mn)										47,551
Net debt (RMB mn)										(6,751)
Minority interest (RMB mn)										23
Equity value (RMB mn)										54,279
# of shares (mn)										1,147
Price per share (RMB per share)										47.31
Price per share (HK\$ per share)										57.00

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%
8.5%	61.41	65.61	70.57	76.52	83.80
9.0%	55.70	59.15	63.18	67.94	73.66
9.5%	50.81	53.69	57.00	60.87	65.44
10.0%	46.59	49.01	51.76	54.94	58.65
10.5%	42.92	44.96	47.28	49.92	52.98

Source: Company data, CMBIS estimates

Figure 3: CMBIS earnings revisions

(RMB mn)	New			Old			Diff (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	7,355	8,797	11,082	9,662	12,818	16,780	-23.9%	-31.4%	-34.0%
Gross profit	2,027	2,545	3,388	2,603	3,761	5,218	-22.1%	-32.3%	-35.1%
Operating profit	(1,659)	(1,078)	(664)	(1,909)	(1,719)	(1,167)	N/A	N/A	N/A
Net profit	(1,542)	(977)	(575)	(1,792)	(1,626)	(1,094)	N/A	N/A	N/A
EPS (RMB)	(1.34)	(0.85)	(0.50)	(1.56)	(1.42)	(0.95)	N/A	N/A	N/A
Gross margin	27.55%	28.93%	30.57%	26.94%	29.34%	31.09%	+0.61ppt	-0.42ppt	-0.52ppt
Operating margin	-22.56%	-12.25%	-5.99%	-19.76%	-13.41%	-6.95%	-2.81ppt	+1.15ppt	+0.97ppt
Net Margin	-20.96%	-11.10%	-5.18%	-18.55%	-12.68%	-6.52%	-2.41ppt	+1.58ppt	+1.33ppt

Source: Company data, CMBIS estimates

Figure 4: CMBIS estimates vs consensus

(RMB mn)	CMBIS			Consensus			Diff (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	7,355	8,797	11,082	8,455	10,812	14,105	-13.0%	-18.6%	-21.4%
Gross profit	2,027	2,545	3,388	2,316	3,143	4,336	-12.5%	-19.1%	-21.9%
Operating profit	(1,659)	(1,078)	(664)	(1,768)	(1,357)	(850)	N/A	N/A	N/A
Net profit	(1,542)	(977)	(575)	(1,564)	(1,181)	(733)	N/A	N/A	N/A
EPS (RMB)	(1.34)	(0.85)	(0.50)	(1.40)	(1.07)	(0.68)	N/A	N/A	N/A
Gross margin	27.55%	28.93%	30.57%	27.40%	29.07%	30.74%	+0.16ppt	-0.15ppt	-0.17ppt
Operating margin	-22.56%	-12.25%	-5.99%	-20.91%	-12.55%	-6.03%	-1.65ppt	+0.30ppt	+0.04ppt
Net Margin	-20.96%	-11.10%	-5.18%	-18.50%	-10.92%	-5.20%	-2.46ppt	-0.18ppt	+0.01ppt

Source: Company data, CMBIS estimates

Financial Statements

Income statement

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	5,065	6,866	7,355	8,797	11,082
Online medical services	858	1,565	2,438	3,462	4,847
Consumer healthcare	1,112	1,383	1,667	2,051	2,604
Health mall	2,902	3,714	3,019	3,019	3,321
Health management & wellness interaction	193	204	230	264	309
Cost of sales	(3,894)	(5,002)	(5,328)	(6,252)	(7,694)
Gross profit	1,171	1,864	2,027	2,545	3,388
Selling & marketing expenses	(1,207)	(1,587)	(2,095)	(2,199)	(2,549)
Administrative expenses	(1,075)	(1,017)	(1,713)	(1,583)	(1,662)
Other income	42	205	213	160	160
Other (losses)/gains	109	(385)	(91)	0	0
Operating profit	(959)	(919)	(1,659)	(1,078)	(664)
Finance costs - net	253	100	146	121	109
Gain/(loss) from associates and JV	(27)	(122)	(19)	(20)	(20)
Profit before tax	(734)	(941)	(1,533)	(977)	(575)
Income tax expense	(13)	(7)	(9)	0	0
Total net profit	(747)	(949)	(1,541)	(977)	(575)
Minority Interests	(13)	(0)	0	0	0
Attributable profit	(734)	(948)	(1,542)	(977)	(575)

Cash flow summary

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Profit before tax	(747)	(949)	(1,533)	(977)	(575)
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	34	87
Others	(50)	481	138	97	83
Finance costs - net	(253)	(174)	(146)	(121)	(109)
Operating cash flow	(504)	(1,102)	(1,196)	(883)	(423)
Capex	(133)	(73)	(80)	(80)	(80)
Acquisition of subsidiaries	0	0	0	0	0
Other investing activities	4,610	(2,424)	154	127	115
Investing cash flow	4,477	(2,497)	74	47	35
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
Financing cash flow	9	6,922	(7)	(6)	(6)
Net change in cash	3,981	3,323	(1,130)	(841)	(394)
Cash at the beginning	926	4,965	7,920	6,790	5,949
Cash flow at the end	4,965	7,920	6,790	5,949	5,554

Balance sheet

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Non-current assets	3,901	3,307	3,293	3,269	3,239
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
Current assets	8,478	15,256	13,770	13,021	12,897
Inventories	75	160	118	125	147
Accounts and other receivables	649	1,058	854	915	1,094
Contract assets	141	102	102	102	102
Bank balances and cash	0	0	0	0	0
Others	7,613	13,935	12,697	11,879	11,554
Current liabilities	2,665	2,668	2,624	2,743	3,079
Short-term borrowings	0	0	0	0	0
Trade and other payables	1,777	1,863	1,820	1,938	2,275
Contract liabilities	837	730	730	730	730
Others	51	75	75	75	75
Non-current liabilities	44	39	39	39	39
Lease liabilities	44	39	39	39	39
Trade and other payables	0	0	0	0	0
Total net assets	9,669	15,856	14,399	13,507	13,017
Minority interest	21	23	23	23	23
Shareholders' equity	9,669	15,856	14,399	13,507	13,017

Key ratios

YE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Sales mix (%)					
Online medical services	16.9	22.8	33.2	39.4	43.7
Consumer healthcare	22.0	20.1	22.7	23.3	23.5
Health mall	57.3	54.1	41.1	34.3	30.0
Health mgmt & wellness interaction	3.8	3.0	3.1	3.0	2.8
Total	100	100	100	100	100
Profit & loss ratios (%)					
Gross margin	23	27	28	29	31
EBITDA margin	(17)	(13)	(22)	(12)	(6)
Pre-tax margin	(14)	(14)	(21)	(11)	(5)
Net margin	(14)	(14)	(21)	(11)	(5)
Effective tax rate	(2)	(1)	(1)	0	0
Balance sheet ratios					
Current ratio (x)	3	6	5	5	4
Trade receivables turnover days	39	45	45	45	45
Trade payables turnover days	153	133	133	133	133
Net debt to total equity ratio (%)	Net	Net	Net	Net	Net
Returns (%)					
ROE	(7.4)	(7.4)	(10.2)	(7.0)	(4.3)
ROA	(5.9)	(6.1)	(8.7)	(5.9)	(3.5)
Per share value					
EPS (RMB)	(0.73)	(0.92)	(1.34)	(0.85)	(0.50)
DPS (RMB)	0.00	0.00	0.00	0.00	0.00
BVP (RMB)	9.66	15.40	12.55	11.77	11.35

Source: Company data, CMBIS estimates

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CMB International Securities Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

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