

# PA Good Doctor (1833 HK)

## Strategy 2.0 to fuel long-term revenue growth

- 2021 earnings in line.** PA Good Doctor (PAGD) reported 2021 revenue of RMB7,334mn, up by 6.8% YoY, and attributable net loss of RMB1,538mn, compared with RMB949mn net loss in 2020. 2021 revenue and attributable net loss were in line with our forecasts. Gross profit margin dropped to 23.3% in 2022 from 27.2% in 2021, due to overall reduction of clients' advertisement budgets as well as the rebounded fulfillment rate of membership service products in 2021. The number of registered users increased by 13.4% YoY to 423mn as of Dec 2021 and the number of paying users increased by 21.9% from 32mn as of Jun 2021 to 39mn as of Dec 2021, representing a conversion rate of paying users of 24.8% (up 19.4 ppts). GMV of its online mall reached RMB6,120mn, up 11.8% YoY on a high base of 2020.
- Strategy 2.0 is expected to fuel long-term revenue growth.** In 1H20, PAGD introduced its Strategy 2.0 which mainly includes Health Management Organization (HMO) for corporate clients, family doctor membership services for individual users and O2O model. As of Dec 2021, PAGD has accumulatively served 520 corporate clients and covered more than 1mn corporate employees. The Company previously indicated that corporate clients accounted for 48% of total traffic in 1H21. With more than 48,000 in-house and external doctors, family doctor services connect PAGD's HMO and O2O models, offering families customized health management services and navigating traffic from different channels. PAGD's innovative service model will benefit from recent favorable government policy. On 15 Mar 2022, National Health Commission with other government agencies issued a guidance to promote family doctor services in China, which targets to cover 75% of families by 2035.
- Operating efficiency has room for improvement.** According to PAGD, ARPU (average revenue per user) of HMO model is significantly higher than that of the traditional individual user model given the customer acquisition cost of the former is lower. By focusing on corporate clients, the Company was able to control its operating expenditures. Marketing and admin expenses as % of revenue dropped from 52.5% in 1H21 to 45.5% in 2H21. We expect the trend to continue in 2022.
- Maintain BUY.** Due to the strategy adjustment, PAGD will sacrifice certain near-term earnings for better long-term growth. Thus, we cut our TP from HK\$57.00 to HK\$28.57, based on a 9-year DCF model (WACC: 12.9%, terminal growth rate: 3.0%). We forecast revenue to grow by 6%/24%/21% YoY and net losses of RMB1,193mn/RMB812mn/RMB159mn in FY22E/23E/24E.

### Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY22E	FY23E
Revenue (RMB mn)	6,866	7,334	7,741	9,564	11,607
YoY growth (%)	36	7	6	24	21
Net income (RMB mn)	(948)	(1,538)	(1,193)	(812)	(159)
EPS (RMB)	(0.92)	(1.39)	(1.06)	(0.72)	(0.14)
Consensus EPS (RMB)	N/A	N/A	(1.04)	(0.63)	(0.18)
P/S (x)	2.3	2.1	2.0	1.6	1.3
ROE	(7.4)	(10.3)	(8.8)	(6.4)	(1.3)
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

**BUY (Maintain)**

Target Price	HK\$28.57
(Previous TP)	HK\$57.0)
Up/Downside	+62.89%
Current Price	HK\$17.54

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### Stock Data

Mkt Cap (HK\$ mn)	19,808
Avg 3 mths t/o (HK\$ mn)	172
52w High/Low (HK\$)	105.90/15.18
Total Issued Shares (mn)	1,129

Source: Bloomberg

### Shareholding Structure

Ping An Insurance	38.43%
Management	8.59%
Hopson	9.02%
Other shareholders	43.96%

Source: HKEx, Company

### Share Performance

	Absolute	Relative
1-mth	-37.0%	-16.7%
3-mth	-46.8%	-32.4%
6-mth	-70.4%	-59.8%

Source: Bloomberg

### 12-mth Price Performance



Source: Bloomberg

### Auditor: PWC

### Related Reports

- Adopting new strategy for high quality growth – 19 Nov 2021
- Increasing expenditures to support strategic expansion – 26 Aug 2021
- Emphasis on its core online medical service capabilities – 4 Feb 2021

**Figure 1: Earnings revision**

US\$ mn	New			Old			Diff (%)		
	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
Revenue	7,741	9,564	11,607	8,797	11,082	N/A	-12.0%	-13.7%	N/A
Gross Profit	1,915	2,561	3,299	2,545	3,388	N/A	-24.7%	-24.4%	N/A
Operating Profit	(1,241)	(823)	(165)	(1,078)	(664)	N/A	N/A	N/A	N/A
Net profit	(1,193)	(812)	(159)	(977)	(575)	N/A	N/A	N/A	N/A
EPS (US\$ cents)	(1.06)	(0.72)	(0.14)	(0.85)	(0.50)	N/A	N/A	N/A	N/A
Gross Margin	24.74%	26.78%	28.42%	28.93%	30.57%	N/A	-4.19ppt	-3.79ppt	N/A
Operating Margin	-16.03%	-8.61%	-1.43%	-12.25%	-5.99%	N/A	-3.78ppt	-2.62ppt	N/A
Net Margin	-15.41%	-8.49%	-1.37%	-11.10%	-5.18%	N/A	-4.3ppt	-3.3ppt	N/A

Source: Company data, CMBIGM estimates

**Figure 2: CMBIGM estimates vs consensus**

US\$ mn	CMBIGM			Consensus			Diff (%)		
	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
Revenue	7,741	9,564	11,607	8,310	10,071	11,614	-6.8%	-5.0%	-0.1%
Gross Profit	1,915	2,561	3,299	2,242	2,952	3,490	-14.6%	-13.2%	-5.5%
Operating Profit	(1,241)	(823)	(165)	(1,238)	(796)	(153)	0.2%	3.4%	8.2%
Net profit	(1,193)	(812)	(159)	(1,202)	(785)	(238)	-0.8%	3.4%	-33.0%
EPS (US\$ cents)	(1.06)	(0.72)	(0.14)	(1.04)	(0.63)	(0.18)	1.7%	14.6%	-21.6%
Gross Margin	24.74%	26.78%	28.42%	26.98%	29.31%	30.05%	-2.24ppt	-2.54ppt	-1.63ppt
Operating Margin	-16.03%	-8.61%	-1.43%	-14.90%	-7.90%	-1.32%	-1.13ppt	-0.7ppt	-0.11ppt
Net Margin	-15.41%	-8.49%	-1.37%	-14.46%	-7.79%	-2.05%	-0.94ppt	-0.69ppt	+0.68ppt

Source: Company data, CMBIGM estimates

**Figure 3: Valuation on risk-adjusted DCF valuation**

DCF Valuation (in Rmb mn)	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
EBIT	(1,281)	(863)	(205)	783	1,410	2,397	3,955	6,327	9,807
Tax rate	0.0%	0.0%	0.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%
EBIT*(1-tax rate)	(1,281)	(863)	(205)	666	1,198	2,037	3,361	5,378	8,336
+ D&A	42	53	61	67	121	205	338	541	839
- Change in working capital	(647)	(69)	(205)	(235)	(423)	(718)	(1,185)	(1,897)	(2,940)
- Capex	(80)	(80)	(80)	(80)	(80)	(80)	(80)	(80)	(80)
<b>FCFF</b>	<b>(1,967)</b>	<b>(959)</b>	<b>(429)</b>	<b>418</b>	<b>816</b>	<b>1,444</b>	<b>2,434</b>	<b>3,943</b>	<b>6,155</b>
<b>Terminal value</b>									<b>64,365</b>
<b>Terminal growth rate</b>		<b>3.0%</b>							
<b>WACC</b>		<b>12.9%</b>							
Cost of Equity		15.0%							
Cost of Debt		5.0%							
Equity Beta		1.0							
Risk Free Rate		3.0%							
Market Risk Premium		12.0%							
Target Debt to Asset ratio		20.0%							
Effective Corporate Tax Rate		15.0%							
Terminal value (RMB mn)		21,684							
Total PV (RMB mn)		24,910							
Net debt (RMB mn)		(1,228)							
Minority interest (RMB mn)		2							
Equity value (RMB mn)		26,136							
# of shares (mn)		1,129							
Price per share (RMB per share)		23.14							
<b>Price per share (HK\$ per share)</b>		<b>28.57</b>							

Source: CMBIGM estimates

## Financial Summary

### Income statement

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Revenue</b>	<b>6,866</b>	<b>7,334</b>	<b>7,741</b>	<b>9,564</b>	<b>11,607</b>
Medical services	2,119	2,288	2,746	3,569	4,533
Health services	4,747	5,046	4,996	5,995	7,074
Cost of sales	(5,002)	(5,627)	(5,826)	(7,003)	(8,308)
<b>Gross profit</b>	<b>1,864</b>	<b>1,707</b>	<b>1,915</b>	<b>2,561</b>	<b>3,299</b>
Selling & marketing exp.	(1,587)	(1,757)	(1,664)	(1,769)	(1,799)
Administrative expenses	(1,017)	(1,846)	(1,742)	(1,865)	(1,915)
Other income	205	275	250	250	250
Other (losses)/gains	(385)	(22)	0	0	0
<b>Operating profit</b>	<b>(919)</b>	<b>(1,643)</b>	<b>(1,241)</b>	<b>(823)</b>	<b>(165)</b>
Finance costs - net	100	159	87	51	46
Gain/(loss) from associates and JV	(122)	(39)	(40)	(40)	(40)
<b>Profit before tax</b>	<b>(941)</b>	<b>(1,524)</b>	<b>(1,194)</b>	<b>(812)</b>	<b>(160)</b>
Income tax expense	(7)	(16)	0	0	0
<b>Total net profit</b>	<b>(949)</b>	<b>(1,539)</b>	<b>(1,194)</b>	<b>(812)</b>	<b>(160)</b>
Minority Interests	(0)	(1)	(1)	(1)	(0)
<b>Profit attributable to shareholders</b>	<b>(948)</b>	<b>(1,538)</b>	<b>(1,193)</b>	<b>(812)</b>	<b>(159)</b>

### Cash flow summary

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Profit before tax</b>	<b>(949)</b>	<b>(1,539)</b>	<b>(1,194)</b>	<b>(812)</b>	<b>(160)</b>
Depreciation for PP&E	170	207	42	53	61
Change in working capital	(716)	145	(647)	(69)	(205)
Others operating activities	567	56	168	199	240
Finance costs - net	(174)	(272)	(87)	(51)	(46)
<b>Net cash fr. operating act.</b>	<b>(1,102)</b>	<b>(1,403)</b>	<b>(1,718)</b>	<b>(679)</b>	<b>(109)</b>
Capex	(73)	(89)	(80)	(80)	(80)
Other investing activities	(2,424)	(3,011)	97	61	56
<b>Net cash fr. investing act</b>	<b>(2,497)</b>	<b>(3,100)</b>	<b>17</b>	<b>(19)</b>	<b>(24)</b>
Net proceeds from shares issued	6,869	0	0	0	0
Bank borrowing	0	0	300	300	300
Other financing activities	53	(320)	(10)	(10)	(10)
<b>Net cash fr. financing act</b>	<b>6,922</b>	<b>(320)</b>	<b>290</b>	<b>290</b>	<b>290</b>
Net change in cash	3,323	(4,823)	(1,411)	(408)	157
Cash at the beginning of the year	4,965	7,920	3,065	1,654	1,246
<b>Cash at the end of the year</b>	<b>7,920</b>	<b>3,065</b>	<b>1,654</b>	<b>1,246</b>	<b>1,403</b>

### Balance sheet

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Non-current assets</b>	<b>3,307</b>	<b>5,124</b>	<b>5,097</b>	<b>5,058</b>	<b>5,012</b>
Goodwill	970	970	970	970	970
PP&E	166	140	178	205	223
Right-of-use assets	115	197	197	197	197
Financial assets at FV	587	516	516	516	516
Others	1,468	3,301	3,236	3,171	3,106
<b>Current assets</b>	<b>15,256</b>	<b>12,757</b>	<b>11,820</b>	<b>11,567</b>	<b>12,445</b>
Inventories	160	398	463	479	576
Trade receivables	1,058	1,554	1,708	1,803	2,227
Bank balances and cash	7,920	3,065	1,654	1,246	1,403
Others	6,117	7,741	7,995	8,040	8,239
<b>Current liabilities</b>	<b>2,668</b>	<b>3,674</b>	<b>3,800</b>	<b>4,187</b>	<b>5,003</b>
Short-term borrowings	0	0	300	600	900
Trade and other payables	1,863	2,641	2,467	2,554	3,070
Contract liabilities	730	952	952	952	952
Others	75	80	80	80	80
<b>Non-current liabilities</b>	<b>39</b>	<b>121</b>	<b>121</b>	<b>121</b>	<b>121</b>
Lease liabilities	39	121	121	121	121
Trade and other payables	0	0	0	0	0
<b>Total net assets</b>	<b>15,856</b>	<b>14,086</b>	<b>12,996</b>	<b>12,318</b>	<b>12,333</b>
<b>Minority interest</b>	<b>23</b>	<b>2</b>	<b>2</b>	<b>1</b>	<b>1</b>
<b>Shareholders' equity</b>	<b>15,856</b>	<b>14,086</b>	<b>12,996</b>	<b>12,318</b>	<b>12,333</b>

### Key ratios

YE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Sales mix (%)</b>					
Medical services	30.9	31.2	35.5	37.3	39.1
Health services	69.1	68.8	64.5	62.7	60.9
Total	100.0	100.0	100.0	100.0	100.0
<b>Profit &amp; loss ratios (%)</b>					
Gross margin	27	23	25	27	28
EBITDA margin	(13)	(20)	(16)	(8)	(1)
Pre-tax margin	(14)	(21)	(15)	(8)	(1)
Net margin	(14)	(21)	(15)	(8)	(1)
Effective tax rate	(1)	(1)	0	0	0
<b>Balance sheet ratios</b>					
Current ratio (x)	6	3	3	3	2
Trade receivables turnover days	45	65	85	85	85
Trade payables turnover days	133	146	160	160	160
Net debt to total equity ratio (%)	Net cash	Net cash	Net cash	Net cash	Net cash
<b>Returns (%)</b>					
ROE	(7.4)	(10.3)	(8.8)	(6.4)	(1.3)
ROA	(6.1)	(8.4)	(6.9)	(4.8)	(0.9)
<b>Per share value</b>					
EPS (RMB)	(0.92)	(1.39)	(1.06)	(0.72)	(0.14)
DPS (RMB)	0.00	0.00	0.00	0.00	0.00
BVP (RMB)	15.40	12.77	11.51	10.91	10.92

Source: Company data, CMBIGM estimates

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