

Airdoc Technology (2251 HK)

Multi-channel strategy to maximize market potential

- 2021 earnings in line.** Airdoc reported 2021 revenue of RMB115.2mn, up 141.6% YoY, primarily driven by strong revenue growth from AI-based software solutions (+126.3% YoY), as well as sales growth of hardware devices (+390.6% YoY). Gross profit was up 141.5% YoY to RMB70.2mn, representing a blended GPM of 61.0%. The GPM of software solutions reached 67.5% in 2021, as compared to 62.5%/ 46.3% in 2020/ 2019. The ASP per use of AI-based software solutions increased 23.9% YoY from RMB16.1 in 2020 to RMB19.9 in 2021.
- Multi-channel commercialization strategy leads to wide market coverage.** During 2021, Airdoc's customer base expanded by 181% YoY to 244. The number of service sites surged from 1,100 in 2020 to 2,460 in 2021, up 124% YoY. The total detection volume via Airdoc's SaMDs and health risk assessment solutions surged by 82.6% YoY to 4.86mn in 2021. Identifying strong demand in eye health management and favorable regulatory environment in the area, Airdoc actively explores business opportunities in eye health management services, providing as a new growth pillar in addition to services provided to medical institutions and consumer healthcare. Airdoc has established an in-house sales and marketing team of 156 people as of end-2021, growing 123% YoY.
- Encouraging progress of Airdoc-AIFUNDUS.** Airdoc-AIFUNDUS (1.0) has been approved in Aug 2020 for assisting physicians in medical institutions with detecting and diagnosing diabetic retinopathy. Airdoc seeks to include Airdoc-AIFUNDUS (1.0) in the pricing guidance in many provinces in China. To date, the pricing guidance of fundus image analysis has been issued by local authorities in Hebei, Shandong, Shanxi, Anhui and Jiangsu. Airdoc is assisting hospitals in Beijing to obtain the pricing guidance and aims to assist hospitals in another four provinces with the application in 2022. Airdoc-AIFUNDUS (2.0) is designed for the auxiliary diagnosis of hypertensive retinopathy, retinal vein occlusion and AMD. Airdoc plans to apply for a registration approval of new indications of Airdoc-AIFUNDUS (2.0) with the NMPA in 2Q22.
- Maintain BUY.** Given that Airdoc has proven the fast-growth of its business model, and has been actively developing new applications of its AI-based solutions, we revised our TP to HK\$74.54, based on a 9- year DCF model (WACC:11.0%, terminal growth rate: 3.0%).

Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	48	115	214	404	698
YoY growth (%)	57	142	85	89	73
Net income (RMB mn)	-80	-143	-159	-192	-138
EPS (RMB)	-2.18	-1.76	-1.53	-1.85	-1.33
Consensus EPS (RMB)		N/A	N/A	N/A	N/A
P/S (x)	24	10	5	3	2
P/B (x)	N/A	1	1	1	1
ROE (%)	-19	-8	-10	-13	-10
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimate

BUY (Maintain)

Target Price	HK\$74.54
(Previous TP)	HK\$95.32)
Up/Downside	+334.38%
Current Price	HK\$17.16

China Healthcare Sector

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Stock Data

Mkt Cap (HK\$ mn)	1,777
Avg 3 mths t/o (HK\$ mn)	1.38
52w High/Low (HK\$)	74.95/15.02
Total Issued Shares (mn)	26

Source: Bloomberg

Shareholding Structure

Dalei Zhang	16.65%
Fosun International	9.92%
Ping An Insurance	6.92%
Tecent Holdings	5.74%
Others	60.77%

Source: WIND

Share Performance

	Absolute	Relative
1-mth	-44.9%	-37.4%
3-mth	-61.0%	-57.8%
6-mth	NA	NA

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: KPMG

Related Report

"Pioneer in AI-based medical imaging industry" – 16 Dec 2021

Figure 1: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	214	404	698	239	451	799	-10.5%	-10.4%	-12.7%
Gross profit	140	288	513	162	330	604	-13.9%	-12.9%	-14.9%
Operating profit	-158	-191	-138	-146	-155	-51	8.7%	23.5%	169.9%
Net profit	-159	-192	-138	-146	-155	-51	8.9%	23.8%	170.7%
EPS (RMB)	-1.53	-1.85	-1.33	-1.41	-1.50	-0.49	8.9%	23.8%	170.7%
Gross margin	65.51%	71.15%	73.58%	68.10%	73.19%	75.51%	-2.59ppt	-2.04ppt	-1.93ppt
Operating margin	-74.17%	-47.32%	-19.73%	-61.10%	-34.32%	-6.38%	-13.07ppt	-13.00ppt	-13.35ppt
Net Margin	-74.38%	-47.43%	-19.79%	-61.11%	-34.33%	-6.38%	-13.27ppt	-13.10ppt	-13.41ppt

Source: Company data, CMBIGM estimates

Figure 2: Risk-adjusted DCF valuation

DCF Valuation (in Rmb mn)	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
EBIT	(175)	(206)	(149)	40	254	439	697	964	1,260
Tax rate	0	0	0	0	0	0	0	0	0
EBIT*(1-tax rate)	(175)	(206)	(149)	34	216	373	592	819	1,071
+ D&A	11	16	19	22	24	26	27	27	28
- Change in working capital	(49)	(57)	(86)	(100)	(176)	(160)	(211)	(190)	(184)
- Capex	(30)	(30)	(30)	(30)	(30)	(30)	(30)	(30)	(30)
FCFF	(243)	(276)	(246)	(74)	33	209	378	627	885
Terminal value									11,380
Terminal growth rate	3.0%								
WACC	11.0%								
Cost of Equity	13.3%								
Cost of Debt	5.0%								
Equity Beta	0.9								
Risk Free Rate	3.5%								
Market Risk Premium	10.5%								
Target Debt to Asset ratio	25.0%								
Effective Corporate Tax Rate	15.0%								
Terminal value (RMB mn)	4,445								
Total PV (RMB mn)	4,704								
Net debt (RMB mn)	(1,550)								
Minority interest (RMB mn)	0								
Equity value (RMB mn)	6,253								
Equity value (HK\$ mn)	7,720								
# of shares (mn)	104								
Price per share (HK\$ per share)	74.54								

Source: CMBIGM estimates

Financial Summary

Income statement

YE Dec 31 (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	48	115	214	404	698
Provision of AI-based software solutions	43	97	182	355	620
Sales of hardware device	3	16	29	47	76
Other services	1	2	2	2	2
Cost of sales	(19)	(45)	(74)	(117)	(184)
Gross profit	29	70	140	288	513
R&D expenses	(42)	(64)	(140)	(202)	(279)
Selling & marketing	(26)	(73)	(125)	(202)	(279)
Administrative expenses	(18)	(77)	(50)	(89)	(105)
Other Income	5	1	17	14	12
Operating profit	(52)	(142)	(158)	(191)	(138)
Finance costs	(0)	(0)	(0)	(0)	(0)
Changes in the carrying amount of financial	(27)	0	0	0	0
Profit before tax	(79)	(143)	(159)	(192)	(138)
Income tax expense	(0)	0	0	0	0
Total net profit	(80)	(143)	(159)	(192)	(138)
Minority Interests	0	0	0	0	0
Profit attributable to shareholders	(80)	(143)	(159)	(192)	(138)

Cash flow summary

YE Dec 31 (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Profit before tax	(79)	(143)	(159)	(192)	(138)
D&A	5	6	11	16	19
Impairment	(0)	0	0	0	0
Change in working capital	(4)	12	(49)	(57)	(86)
Other operating activities	35	10	0	0	0
Income tax paid	0	0	0	0	0
Net cash from operating	(43)	(114)	(197)	(232)	(204)
Purchase of PP&E	(22)	(28)	(30)	(30)	(30)
Investment in unlisted equity	(2)	0	0	0	0
Other investing activities	116	0	0	0	0
Net cash from investing	92	(28)	(30)	(30)	(30)
Capital contributions	63	1516	0	0	0
Proceeds from bank borrowings	0	0	0	0	0
Other financing activities	178	(0)	(0)	(0)	(0)
Net cash from financing	241	1516	(0)	(0)	(0)
Net change in cash	289	1374	(227)	(262)	(234)
Cash at the beginning year	85	375	1785	1558	1296
Effects of exchange rate	(0)	0	0	0	0
Cash at the end of the year	375	1748	1558	1296	1061

Balance sheet

YE Dec 31 (RMBmn)	FY20A	FY21A	FY22E	FY23E	FY24E
Non-current assets	27	49	67	81	92
PP&E	23	45	64	78	88
Other financial assets	4	4	4	4	4
Current assets	409	1846	1668	1501	1412
Inventories	4	8	12	19	30
Trade receivables	20	34	63	119	206
Prepayments and other receivables	11	19	35	66	115
Cash and cash equivalents	375	1785	1558	1296	1061
Other financial assets	0	0	0	0	0
Current liabilities	25	71	71	109	169
Trade payables	17	49	54	86	136
Contract liabilities	7	17	11	18	28
Lease liabilities	1	5	5	5	5
Other current liabilities	0	0	0	0	0
Non-current liabilities	2	3	3	3	3
Deferred income	2	0	0	0	0
Borrowings	0	3	3	3	3
Total equity	408	1820	1661	1470	1332
Issued capital	75	101	101	101	101
Reserves	333	1719	1560	1368	1230
Non-controlling interests	0	0	0	0	0

Key ratios

YE Dec 31	FY20A	FY21A	FY22E	FY23E	FY24E
Sales mix (%)					
Provision of AI-based	90	84	85	88	89
Sales of hardware devices	7	14	14	12	11
Other services	3	2	1	0	0
Total	100	100	100	100	100
Profit & loss ratios (%)					
Gross margin	61	61	66	71	74
EBITDA margin	(157)	(120)	(77)	(47)	(19)
Pre-tax margin	(166)	(124)	(74)	(47)	(20)
Net margin	(168)	(124)	(74)	(47)	(20)
Effective tax rate	0	0	0	0	0
Balance sheet ratios					
Current ratio (x)	16	26	24	14	8
Inventory days	70	62	60	60	60
Trade receivables turnover days	150	108	108	108	108
Trade payable days	377	265	270	270	270
Net gearing ratio	Net cash	Net cash	Net cash	Net cash	Net cash
Returns (%)					
ROE	(19)	(8)	(10)	(13)	(10)
ROA	(18)	(8)	(9)	(12)	(9)
Per share value					
EPS (RMB)	(2)	(2)	(2)	(2)	(1)
DPS (RMB)	N/A	0	0	0	0
BVP (RMB)	N/A	22	16	14	13

Source: Company data, CMBIGM estimates

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