

# Jinxin Fertility (1951 HK)

## Strengthen leading positioning in ARS industry

- 2021 earnings beat.** Jinxin reported 2021 revenue of RMB1,839mn, up 28.9% YoY, attributable net income of RMB354mn, up 35.8% YoY, and adjusted Non-IFRS attributable net income of RMB455mn, up 22.3% YoY. Earnings slightly beat our forecasts. By segment, revenue of ARS increased by 18.6% YoY to RMB1,160mn in 2021, mainly driven by the 41.7% revenue growth from Shenzhen Zhongshan Hospital. HRC delivered a robust 21.0% YoY revenue growth, thanks to the strong domestic demand recovery. GPM improved by 2.3ppts to 42.0% in 2022, thanks to the economies of scale on the recovery from the pandemic in China. Number of IVF treatment cycles grew by 19.6% YoY to 27,354 in 2021 (vs 17.9% YoY decline in 2020) with an average success rate of 54.5% in its headquarter hospitals. 2021 was a fruitful year of M&As with the completion of the RMB3bn acquisition of Sichuan Jinxin Women and Children Hospitals (WCH) in Nov 2021 and the acquisition RHC and ARC in HK in Aug 2021. We forecast 44% YoY revenue growth for 2022E, while 15% of the growth will be attributable to the consolidation of Jinxin WCH.
- Jinxin WCH to generate substantial synergies with IVF business.** Jinxin WCH, a Class III Grade A hospital, is the largest standalone private hospital of obstetrics, gynecology (OB/GYN) and pediatrics medical services in China. Services offered by Jinxin WCH are valuable downstream additions to Jinxin's IVF business. In addition, Jinxin WCH and its IVF business has strong synergies in customer acquisition. In Jan-Feb 2022, the number of IVF patients directed to OB/GYN business increased by 87% YoY and the number of OB/GYN patients converted to IVF business increased by 78% YoY. We expect more synergies to be released as business integration progressing.
- To provide full cycle fertility services in Shenzhen.** In Jan 2022, Jinxin announced to raise its equity stake in Shenzhen Zhongshan Hospital (ZSH) from 79.4% to 94.4%. In Feb 2022, the Company acquired a new property in Shenzhen for RMB1.7bn which targets to commence operation in 3Q23E. The new property will allow Shenzhen ZSH to expand its service offerings to obstetrics, gynecology, pediatrics and andrology services. Shenzhen ZSH is also critical for the Company's business positioning in the Great Bay area.
- Maintain BUY.** We keep our TP at HK\$19.01, based on a 9-year DCF model (WACC: 10.2%, terminal growth rate: 4.0%). We forecast revenue to grow 44%/20%/19% YoY and attributable Non-IFRS net income to grow 34%/23%/22% YoY in FY22E/23E/24E.

### Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	1,426	1,839	2,640	3,176	3,785
YoY growth (%)	-13	29	44	20	19
Net profit (RMB mn)	252	340	483	603	744
Adjusted net profit(RMB mn)	372	455	612	755	924
EPS (RMB)	0.10	0.14	0.19	0.24	0.30
YoY growth (%)	-19	31	41	25	23
Consensus EPS (RMB)	N/A	N/A	0.23	0.29	0.36
P/E (x)	47.2	36.1	25.6	20.5	16.6
P/B (x)	1.6	1.4	1.3	1.3	1.2
ROE	3.3	4.2	5.4	6.3	7.2
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

**BUY (Maintain)**

Target Price	HK\$19.01
(Previous TP)	HK\$19.01)
Up/Downside	+215.20%
Current Price	HK\$6.03

### China Healthcare Sector

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### Stock Data

Mkt Cap (HK\$ mn)	15,086
Avg 3 mths t/o (HK\$ mn)	186
52w High/Low (HK\$)	23.50/4.43
Total Issued shares (mn)	2,502

Source: Bloomberg

### Shareholding Structure

Jinxin Fertility BV	14.42%
HRC Investment	13.67%
Amethyst Gem Investments	8.54%
Hillhouse	7.45%
Others	55.92%

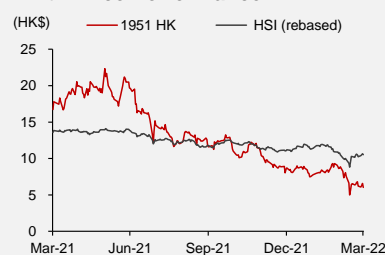
Source: Company

### Share Performance

	Absolute	Relative
1-mth	-27.6%	-26.0%
3-mth	-22.8%	-19.7%
6-mth	-43.3%	-37.3%

Source: Bloomberg

### 12-mth Price Performance



Source: Bloomberg

### Auditor: Deloitte

### Related Reports

- Core emphasis on provision of high quality medical services – 28 Dec 2021
- Significant synergies with the OB/GYN & pediatrics business – 21 Oct 2021
- Better-than-expected recovery from COVID-19 pandemic – 2 Sep 2021

**Figure 1: Earnings revision**

RMB mn	New			Old			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	2,640	3,176	3,785	2,510	2,863	NA	5.20%	10.91%	NA
Gross Profit	1,188	1,435	1,718	1,180	1,374	NA	0.73%	4.44%	NA
Operating Profit	653	815	1,006	700	828	NA	-6.84%	-1.60%	NA
Net profit	483	603	744	507	600	NA	-4.85%	0.50%	NA
EPS (US\$ cents)	0.19	0.24	0.30	0.20	0.24	NA	-4.63%	0.73%	NA
Gross Margin	45.00%	45.20%	45.40%	47.00%	48.00%	NA	-2.00ppt	-2.80ppt	NA
Operating Margin	24.72%	25.67%	26.57%	27.91%	28.93%	NA	-3.20ppt	-3.26ppt	NA
Net Margin	18.29%	18.99%	19.66%	20.22%	20.96%	NA	-1.93ppt	-1.97ppt	NA

Source: Company data, CMBIGM estimates

**Figure 2: CMBIGM estimates vs consensus**

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	2,640	3,176	3,785	2,561	3,107	3,473	3.10%	2.21%	8.99%
Gross Profit	1,188	1,435	1,718	1,169	1,470	1,683	1.66%	-2.38%	2.13%
Operating Profit	653	815	1,006	726	927	1,135	-10.06%	-12.10%	-11.38%
Net profit	483	603	744	567	699	876	-14.78%	-13.74%	-15.04%
EPS (US\$ cents)	0.19	0.24	0.30	0.23	0.29	0.36	-15.35%	-16.30%	-16.20%
Gross Margin	45.00%	45.20%	45.40%	45.64%	47.32%	48.45%	-0.64ppt	-2.12ppt	-3.05ppt
Operating Margin	24.72%	25.67%	26.57%	28.33%	29.84%	32.68%	-3.62ppt	-4.18ppt	-6.11ppt
Net Margin	18.29%	18.99%	19.66%	22.13%	22.50%	25.22%	-3.84ppt	-3.51ppt	-5.56ppt

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	652	800	974	1,310	1,756	2,344	3,118	4,131	5,453
Tax rate	22.8%	22.8%	22.8%	22.8%	22.8%	22.8%	22.8%	22.8%	22.8%
EBIT*(1-tax rate)	504	618	752	1,012	1,356	1,810	2,408	3,191	4,212
+ D&A	156	156	156	189	228	274	327	390	463
- Change in working capital	(163)	18	21	25	30	37	44	52	62
- Capex	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)
<b>FCFF</b>	<b>396</b>	<b>692</b>	<b>829</b>	<b>1,126</b>	<b>1,514</b>	<b>2,021</b>	<b>2,679</b>	<b>3,533</b>	<b>4,637</b>
<b>Terminal value</b>									<b>77,467</b>
<b>Terminal growth rate</b>		<b>4.0%</b>							
<b>WACC</b>		<b>10.2%</b>							
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		30.0%							
Effective Corporate Tax Rate		25.0%							
Terminal value (RMB mn)		29,263							
Total PV (RMB mn)		38,087							
Net debt (RMB mn)		(1,112)							
Minority interest (RMB mn)		207							
Equity value (RMB mn)		38,993							
# of shares (mn)		2,502							
Price per share (RMB per share)		15.59							
Price per share (HK\$ per share)		<b>19.01</b>							

Source: CMBIGM estimates

## Financial Summary

### Income statement

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Revenue</b>	<b>1426</b>	<b>1839</b>	<b>2640</b>	<b>3176</b>	<b>3785</b>
ARS	979	1160	1348	1668	2034
Management service fee	375	528	689	804	926
Ancillary medical services	72	95	120	157	207
Jinxin WCH		34	458	518	585
Others		21	24	28	32
Cost of sales	(860)	(1067)	(1452)	(1740)	(2067)
<b>Gross profit</b>	<b>566</b>	<b>771</b>	<b>1188</b>	<b>1435</b>	<b>1718</b>
Other income	74	56	50	64	81
Other expenses	(6)	(1)	(1)	(1)	(1)
Other losses	57	62	10	10	10
R&D expenses	(11)	(11)	(13)	(16)	(19)
Administrative expenses	(275)	(328)	(457)	(544)	(641)
Selling and distribution exp.	(41)	(62)	(79)	(89)	(98)
Listing expenses	0	0	0	0	0
Finance cost	(13)	(21)	(36)	(36)	(36)
<b>Profit before tax</b>	<b>349</b>	<b>458</b>	<b>653</b>	<b>815</b>	<b>1006</b>
Income tax expense	(89)	(104)	(150)	(187)	(231)
<b>Total net profit</b>	<b>260</b>	<b>354</b>	<b>502</b>	<b>628</b>	<b>774</b>
Minority Interests	(9)	(14)	(20)	(24)	(30)
<b>Profit attributable to shareholders</b>	<b>252</b>	<b>340</b>	<b>483</b>	<b>603</b>	<b>744</b>

### Cash flow summary

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Profit before tax</b>	<b>548</b>	<b>349</b>	<b>458</b>	<b>653</b>	<b>815</b>
Depreciation for PP&E	66	76	99	85	85
Change in working capital	(74)	(108)	(11)	(163)	18
Others	38	41	36	35	20
Tax paid	(126)	(51)	(104)	(150)	(187)
<b>Net cash fr. operating act.</b>	<b>453</b>	<b>308</b>	<b>477</b>	<b>459</b>	<b>751</b>
Capex	(270)	(210)	(50)	(100)	(100)
Net cash flow on acquisition of subsidiaries	0	(287)	(2843)	(300)	0
Other investing activities	(2436)	366	34	36	50
<b>Net cash fr. investing act.</b>	<b>(2706)</b>	<b>(131)</b>	<b>(2859)</b>	<b>(364)</b>	<b>(50)</b>
Net proceeds from shares issued	2934	0	1056	0	0
Bank borrowing	0	163	1500	0	0
Advance from related parties	30	62	0	0	0
Other financing activities	(1317)	(280)	(0)	0	0
<b>Net cash fr. financing act.</b>	<b>1647</b>	<b>(56)</b>	<b>2556</b>	<b>0</b>	<b>0</b>
Net change in cash	(606)	121	174	95	702
Cash at beginning of the year	1184	580	682	862	957
<b>Cash at the end of the year</b>	<b>580</b>	<b>682</b>	<b>856</b>	<b>957</b>	<b>1659</b>

### Balance sheet

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Non-current assets</b>	<b>6,511</b>	<b>10,282</b>	<b>10,527</b>	<b>10,471</b>	<b>10,415</b>
Plant and equipment	1,056	1,092	1,107	1,122	1,137
Goodwill	890	2,720	3,020	3,020	3,020
License	786	1,238	1,215	1,191	1,167
Contractual right to provide management services	1,839	1,797	1,797	1,797	1,797
Trademarks	1,256	2,151	2,151	2,151	2,151
Others	684	1,283	1,237	1,190	1,143
<b>Current assets</b>	<b>2,652</b>	<b>2,543</b>	<b>2,527</b>	<b>3,244</b>	<b>4,112</b>
Inventories	25	47	64	76	91
Accounts and other receivables	69	143	14	17	21
Amounts due from related parties	81	420	420	420	420
Bank balances and cash	682	862	957	1,659	2,510
Others	1,795	1,071	1,071	1,071	1,071
<b>Current liabilities</b>	<b>555</b>	<b>1,072</b>	<b>797</b>	<b>831</b>	<b>869</b>
Accounts and other payables	362	446	171	205	243
Capital contribution deposits	0	0	0	0	0
Amounts due to related parties	68	415	415	415	415
Tax payables	61	107	107	107	107
<b>Non-current liabilities</b>	<b>1,146</b>	<b>3,001</b>	<b>3,001</b>	<b>3,001</b>	<b>3,001</b>
Deferred rent	0	0	0	0	0
Deferred tax liabilities	791	1,011	1,011	1,011	1,011
<b>Total net assets</b>	<b>7,462</b>	<b>8,753</b>	<b>9,255</b>	<b>9,883</b>	<b>10,657</b>
Minority interest	179	207	227	251	282
<b>Shareholders' equity</b>	<b>7,283</b>	<b>8,545</b>	<b>9,028</b>	<b>9,631</b>	<b>10,376</b>

### Key ratios

YE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Sales mix (%)</b>					
ARS	69	63	51	53	54
Management service fee	26	29	26	25	24
Ancillary medical services	5	5	5	5	5
Jinxin WCH	0	2	17	16	15
Others	0	1	1	1	1
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
<b>Profit &amp; loss ratios (%)</b>					
Gross margin	40	42	45	45	45
EBITDA margin	31	33	31	30	30
Net margin	18	18	18	19	20
Effective tax rate	25	23	23	23	23
<b>Balance sheet ratios</b>					
Current ratio (x)	5	2	3	4	5
Trade receivables turnover days	3	2	2	2	2
Trade payables turnover days	53	43	43	43	43
Net debt to total equity ratio (%)	Net cash	Net cash	Net cash	Net cash	Net cash
<b>Returns (%)</b>					
ROE	3.3	4.2	5.4	6.3	7.2
ROA	2.8	3.1	3.7	4.5	5.3
<b>Per share value</b>					
EPS (RMB)	0.10	0.14	0.19	0.24	0.30
DPS (RMB)	0.00	0.00	0.00	0.00	0.00
BVP (RMB)	3.11	3.53	3.70	3.95	4.26

Source: Company data, CMBIGM estimates

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