

Jinxin Fertility (1951 HK)

Acquisition of two IVF hospitals to enhance ARS network in southwest China

Jinxin has entered into an Equity Transfer Agreement (the Agreement) with a private equity fund to purchase stakes in two IVF hospitals located in Kunming city, Yunnan Province, including 1) Jiuzhou Hospital (云南九州医院) and 2) Hewanjia Hospital (昆明和万家妇产医院) with a cash consideration of RMB954mn. Upon completion of the transaction, Jinxin's stake in the two hospitals will increase from 5.1% to 96.5%, indicating a combined valuation of RMB1.04bn for the two hospitals. Jinxin expects to close the deal within 30 business days following the signing of the Agreement.

■ **Enhancing business presence in Yunnan Province.** Amid the COVID-19 pandemic, Jiuzhou Hospital and Hewanjia Hospital delivered resilient 16% and 30% YoY growth in their number of IVF cycles in 2021, with an aggregate of 3,246 cycles, ranked first among private for-profit IVF hospitals in Yunnan Province. However, profitability of the two hospitals temporarily deteriorated in 2021, mainly due to the shifting business focus to IVF, restructuring of customer acquisition channels, strengthening operation compliance as well as impact from the COVID-19 pandemic. In 2021, the two hospitals realized a total of RMB285mn revenue and RMB11.6mn adjusted net profit, indicating 3.7x FY21 P/S and 90x adjusted FY21 P/E for the transaction. We also roughly estimate that Jiuzhou Hospital is separately valued at approximately 3.7x FY21 P/S while Hewanjia Hospital is valued at approximately 4.0x FY21 P/S. Jinxin will renovate the self-owned properties of Jiuzhou Hospital and the leased properties of Hewanjia Hospital upon the completion of the transaction. We expect profitability of the two hospitals to improve significantly thanks to efficient operations by Jinxin and forecast a combined RMB35mn net profit of the two hospitals in 2023E, indicating 31x FY23E P/E for the transaction.

■ **Company's hospital network to cover a quarter of China population.** Post the acquisition, Jinxin will have an extensive network of ARS covering Yunnan, Sichuan, Guangdong and Hubei, which represents c. 350mn population, or a quarter of the total China population. Given most of Jinxin's network hospitals are located in Southern China, there will be significant operation synergies and strong brand awareness in the regions, in our view.

■ **Lift TP to HK\$19.28.** We think M&As will continue to be an important long-term growth driver for Jinxin. Factoring in the impact of the acquisition of the two hospitals in Yunnan, we adjusted our earnings projections and slightly lifted DCF-based TP from HK\$19.01 to HK\$19.28 (WACC: 10.2%, terminal growth rate: 4.0%). Catalyst: Acquisitions of quality assets; Risk: Impact from COVID-19.

Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	1,426	1,839	2,809	3,527	4,180
YoY growth (%)	-13	29	53	26	19
Net profit (RMB mn)	252	340	474	629	779
Adjusted net profit(RMB mn)	372	455	588	763	936
EPS (RMB)	0.10	0.14	0.19	0.25	0.31
Consensus EPS (RMB)	N/A	N/A	0.22	0.27	0.35
P/E (x)	43.3	33.1	24.0	18.1	14.6
P/B (x)	1.5	1.3	1.2	1.1	1.1
ROE	3.3	4.2	5.3	6.5	7.5
Net gearing (%)	Net cash	4	36	27	18

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price HK\$19.28
 (Previous TP) HK\$19.01
Up/Downside +248.10%
Current Price HK\$5.54

China Healthcare Sector

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Stock Data

Mkt Cap (HK\$ mn)	13,860
Avg 3 mths t/o (HK\$ mn)	190
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	-13.1%	-10.8%
3-mth	-36.5%	-23.4%
6-mth	-57.1%	-46.0%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Deloitte

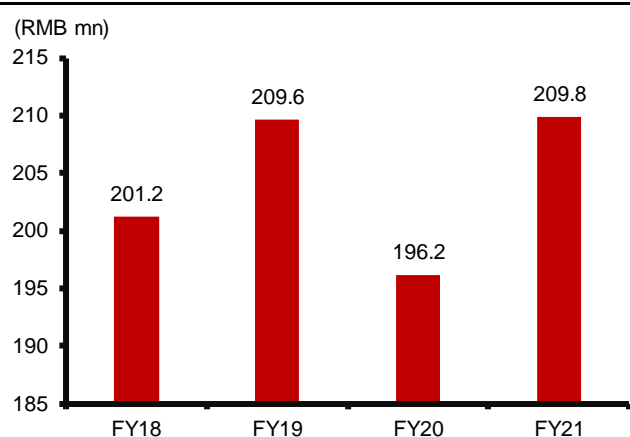
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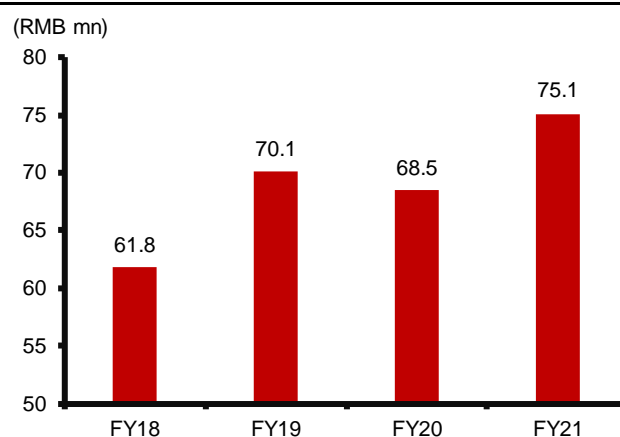
Figure 1: Details of Jiuzhou Hospital and Hewanjia Hospital

Acquisition target	Jiuzhou Hospital (云南九州医院)	Hewanjia Hospital (昆明和万家妇产医院)
Location	Kunming City, Yunnan Province	Kunming City, Yunnan Province
Class of hospital	Class II general hospital	Class III obstetrics and gynecology hospital
Core services	IVF, andrology, obstetrics and gynecology	IVF, obstetrics and gynecology
IVF capacity	5,000+ cycles per year	3,000+ cycles per year
IVF cycles	2,462 cycles in FY19; 2,196 cycles in FY20; 2,565 cycles in FY21	652 cycles in FY19; 522 cycles in FY20; 681 cycles in FY21

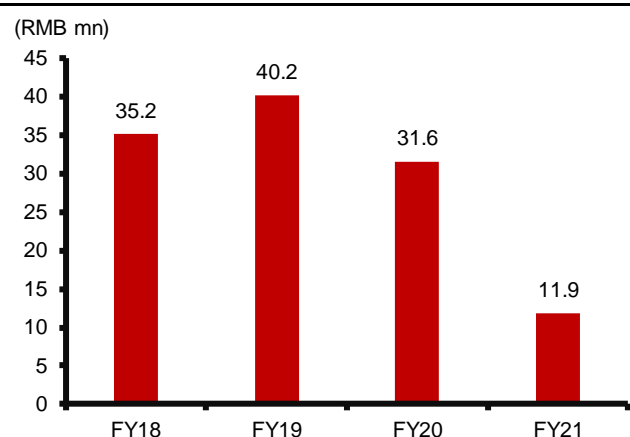
Source: Company data, CMBIGM

Figure 2: Jiuzhou Hospital's revenue (FY18-FY21)

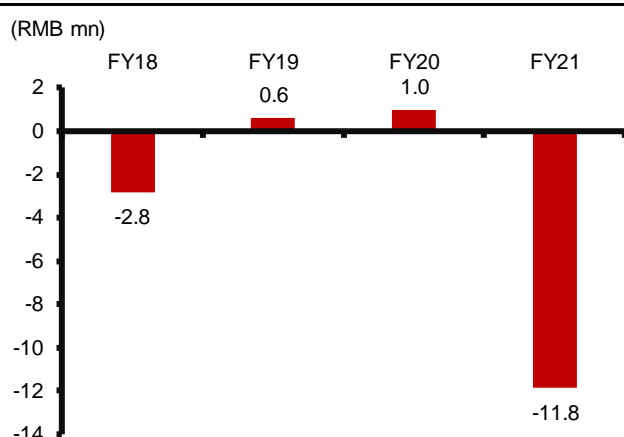
Source: Company data, CMBIGM

Figure 3: Hewanjia Hospital's revenue (FY18-FY21)

Source: Company data, CMBIGM

Figure 4: Jiuzhou Hospital's net profit (FY18-FY21)

Source: Company data, CMBIGM

Figure 5: Hewanjia Hospital's net profit (FY18-FY21)

Source: Company data, CMBIGM

Figure 6: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	2,809	3,527	4,180	2,640	3,176	3,785	6.40%	11.06%	10.44%
Gross Profit	1,253	1,580	1,881	1,188	1,435	1,718	5.45%	10.07%	9.46%
Operating Profit	622	825	1,022	653	815	1,006	-4.63%	1.21%	1.60%
Net profit	474	629	779	483	603	744	-1.79%	4.22%	4.62%
EPS (US\$ cents)	0.19	0.25	0.31	0.19	0.24	0.30	-1.79%	4.22%	4.62%
Gross Margin	44.60%	44.80%	45.00%	45.00%	45.20%	45.40%	-0.4ppt	-0.4ppt	-0.4ppt
Operating Margin	22.15%	23.39%	24.45%	24.72%	25.67%	26.57%	-2.56ppt	-2.28ppt	-2.13ppt
Net Margin	16.88%	17.82%	18.63%	18.29%	18.99%	19.66%	-1.41ppt	-1.17ppt	-1.03ppt

Source: Company data, CMBIGM estimates

Figure 7: CMBIGM estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	2,809	3,527	4,180	2,536	3,064	3,667	10.78%	15.10%	14.00%
Gross Profit	1,253	1,580	1,881	1,136	1,407	1,689	10.25%	12.29%	11.38%
Operating Profit	622	825	1,022	660	832	1,028	-5.72%	-0.85%	-0.59%
Net profit	474	629	779	547	675	862	-13.29%	-6.85%	-9.61%
EPS (US\$ cents)	0.19	0.25	0.31	0.22	0.27	0.35	-11.84%	-7.64%	-11.83%
Gross Margin	44.60%	44.80%	45.00%	44.81%	45.92%	46.06%	-0.21ppt	-1.12ppt	-1.06ppt
Operating Margin	22.15%	23.39%	24.45%	26.03%	27.15%	28.03%	-3.88ppt	-3.76ppt	-3.59ppt
Net Margin	16.88%	17.82%	18.63%	21.57%	22.02%	23.49%	-4.69ppt	-4.2ppt	-4.87ppt

Source: Company data, CMBIGM estimates

Figure 8: Valuation on risk-adjusted DCF valuation

DCF Valuation (in Rmb mn)	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
EBIT	690	880	1,062	1,428	1,914	2,555	3,398	4,503	5,943
Tax rate	22.8%	22.8%	22.8%	22.8%	22.8%	22.8%	22.8%	22.8%	22.8%
EBIT*(1-tax rate)	533	680	820	1,103	1,478	1,973	2,625	3,478	4,591
+ D&A	156	156	156	189	228	274	327	390	463
- Change in working capital	(156)	25	22	27	33	40	47	56	67
- Capex	(100)	(200)	(200)	(200)	(200)	(200)	(200)	(200)	(200)
FCFF	432	661	798	1,119	1,539	2,087	2,800	3,725	4,921
Terminal value									82,214
Terminal growth rate		4.0%							
WACC		10.2%							
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)		31,056							
Total PV (RMB mn)		40,151							
Net debt (RMB mn)		380							
Minority interest (RMB mn)		207							
Equity value (RMB mn)		39,563							
# of shares (mn)		2,502							
Price per share (RMB per share)		15.81							
Price per share (HK\$ per share)		19.28							

Source: CMBIGM estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	1,426	1,839	2,809	3,527	4,180
ARS	979	1,160	1,517	2,019	2,429
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)	(1,067)	(1,556)	(1,947)	(2,299)
Gross profit	566	771	1,253	1,580	1,881
Other income	74	56	27	29	25
Other expenses	(6)	(1)	(1)	(1)	(1)
Other losses	57	62	10	10	10
R&D expenses	(11)	(11)	(14)	(18)	(21)
Administrative expenses	(275)	(328)	(478)	(593)	(695)
Selling and distribution exp.	(41)	(62)	(84)	(102)	(117)
Listing expenses	0	0	0	0	0
Finance cost	(13)	(21)	(81)	(71)	(51)
Profit before tax	349	458	622	825	1022
Income tax expense	(89)	(104)	(143)	(190)	(235)
Total net profit	260	354	479	635	787
Minority Interests	(9)	(14)	(5)	(7)	(8)
Profit attributable to shareholders	252	340	474	629	779

Cash flow summary

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Profit before tax	548	349	458	622	825
Depreciation for PP&E	66	76	99	85	85
Change in working capital	(74)	(108)	(11)	(156)	25
Others	38	41	36	57	55
Tax paid	(126)	(51)	(104)	(143)	(190)
Net cash fr. operating act.	453	308	477	465	800
Capex	(270)	(210)	(50)	(100)	(200)
Net cash flow on acquisition of subsidiaries	0	(287)	(2,843)	(3,429)	0
Other investing activities	(2,436)	366	34	813	15
Net cash fr. investing act.	(2,706)	(131)	(2,859)	(2,715)	(185)
Net proceeds from shares issued	2,934	0	1,056	80	0
Bank borrowing	0	163	1,500	1,950	(500)
Advance from related parties	30	62	0	0	0
Other financing activities	(1,317)	(280)	(0)	0	0
Net cash fr. financing act.	1647	(56)	2,556	2,030	(500)
Net change in cash	(606)	121	174	(220)	116
Cash at beginning of the year	1,184	580	682	862	642
Cash at the end of the year	580	682	856	642	758

Balance sheet

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Non-current assets	6,511	10,282	13,655	13,700	13,744
Plant and equipment	1,056	1,092	1,107	1,222	1,337
Goodwill	890	2,720	6,148	6,148	6,148
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
Current assets	2,652	2,543	1,417	1,554	1,338
Inventories	25	47	68	85	101
Accounts and other receivables	69	143	15	19	23
Amounts due from related parties	81	420	420	420	420
Bank balances and cash	682	862	642	758	523
Others	1,795	1,071	271	271	271
Current liabilities	555	1,072	2,759	2,305	1,347
Accounts and other	362	446	183	229	271
Amounts due to related parties	68	415	415	415	415
Bank borrowings	18	38	1,988	1,488	488
Other current liabilities	108	173	173	173	173
Non-current liabilities	1,146	3,001	3,001	3,001	3,001
Deferred tax liabilities	791	1,011	1,011	1,011	1,011
Bank borrowings	145	126	126	126	126
Other non-current liabilities	210	1,864	1,864	1,864	1,864
Total net assets	7,462	8,753	9,312	9,947	10,734
Minority interest	179	207	212	219	227
Shareholders' equity	7,283	8,545	9,099	9,728	10,507

Key ratios

YE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Sales mix (%)					
ARS	69	63	54	57	58
Management service fee	26	29	25	23	22
Ancillary medical services	5	5	4	4	5
Jinxin WCH	0	2	16	15	14
Others	0	1	1	1	1
Total	100	100	100	100	100
Profit & loss ratios (%)					
Gross margin	40	42	45	45	45
EBITDA margin	31	33	30	29	29
Net margin	18	18	17	18	19
Effective tax rate	25	23	23	23	23
Balance sheet ratios					
Current ratio (x)	5	2	1	1	1
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	4	36	27	18
Returns (%)					
ROE	3.3	4.2	5.3	6.5	7.5
ROA	2.8	3.1	3.4	4.1	5.1
Per share value					
EPS (RMB)	0.10	0.14	0.19	0.25	0.31
DPS (RMB)	0.00	0.00	0.00	0.00	0.00
BVP (RMB)	3.11	3.53	3.72	3.98	4.29

Source: Company data, CMBIGM estimates

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