

Joynn Laboratories (6127 HK)

Strategic expansion to the upstream experimental model supply

- 1Q21 earnings largely in line.** Joynn reported 1Q22 revenue/ attributable net income of RMB271mn/ RMB125mn, up 35%/ 34% YoY, accounting for 12%/ 17% of our full-year estimates. First quarter is usually the low season for Joynn. Gross profit margin was flattish at 51.7% compared with 1Q21, despite the continuous price hikes of experiment animal models. In 1Q22, Joynn signed RMB1bn new contracts, up by c.65% YoY, and total orders at hand amounted to RMB3.6bn. Management is confident to deliver higher revenue growth than the industry average of 36-38%. Meanwhile, Joynn announced to acquire 100% stake of two China-based leading suppliers of high-quality experiment models, including Yunnan Yinmore (云南英茂生物科技) with a cash consideration of RMB830mn and Guangxin Weimei (广西玮美生物科技) with a cash consideration of RMB975mn. Our calculation shows that Yunnan Yinmore is valued at 26x FY21 P/E and Guangxin Weimei is valued at 19x FY21 PE, indicating reasonable acquisition costs.
- Acquisitions of experiment model suppliers to strengthen order fulfillment capabilities.** Both Yinmore and Weimei are leading China-based experiment model suppliers which exclusively supplied research models to leading US-based CROs before the COVID-19 pandemic, indicating the high-quality of their products. Driven by the growing demand in biological drug R&D in China, the supply of research models has been in shortage and the prices of experiment models, especially non-human primates, has experienced significant rise. With a total livestock of more than 20,000 non-human primates, the acquisitions of Yinmore and Weimei will significantly strengthen Joynn's fulfillment capabilities for drug safety assessment (DSA) services in China market, in our view. More importantly, through the acquisitions, Joynn vertically expands its value chain to the upstream experiment model supply, creating significant synergies with its DSA business such as secured model supply, better cost control, improving efficiency in experiment conduction, etc.
- Expanding facilities to meet the rapidly-growing demand.** Joynn's growth of new orders has outpaced that of revenue since 2019, which adds pressures to order fulfillment. To meet the rising demand, Joynn is actively expanding its facilities in China. Its 20,000sq.m. animal rooms in Suzhou will be ready for use in 2H22 and the phase 1 facilities in Guangzhou (18,000sq.m.) and Chongqing (20,000sq.m.) may commence operation by 2024.
- Maintain BUY.** We revise our TP from HK\$107.65 to HK\$107.38 based on a 9-year DCF valuation (WACC: 10.9%, terminal growth rate: 3.0%).

Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	1,076	1,517	2,193	3,066	4,196
YoY growth (%)	68	41	45	40	37
Net income (RMB mn)	313	557	749	992	1,288
EPS (RMB)	0.99	1.51	1.96	2.60	3.38
Consensus EPS (RMB)	N/A	N/A	1.89	2.45	3.08
P/E (x)	48.9	32.0	24.7	18.6	14.3
P/B (x)	12.5	2.5	2.4	2.2	2.0
ROE (%)	36.8	45.6	10.5	12.9	15.2
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price **HK\$107.38**
 (Previous TP **RMB107.65**)
 Up/Downside **+84.03%**
 Current Price **HK\$58.35**

China Healthcare Sector

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Stock Data

Mkt Cap (HK\$mn)	41,586
Avg 3mths t/o (HK\$mn)	31
52w High/Low (HK\$)	138.00/48.50
Total Issued Shares (mn)	382

Source: Bloomberg

Shareholding Structure

Management	44.5%
H-share investors	17.6%
ZhongOu Fund	4.1%
Others	33.8%

Source: Company data

Share Performance

	Absolute	Relative
1-mth	-22.0%	-17.8%
3-mth	4.4%	16.6%
6-mth	-42.1%	-30.3%

Source: Bloomberg

12-mth Price Performance

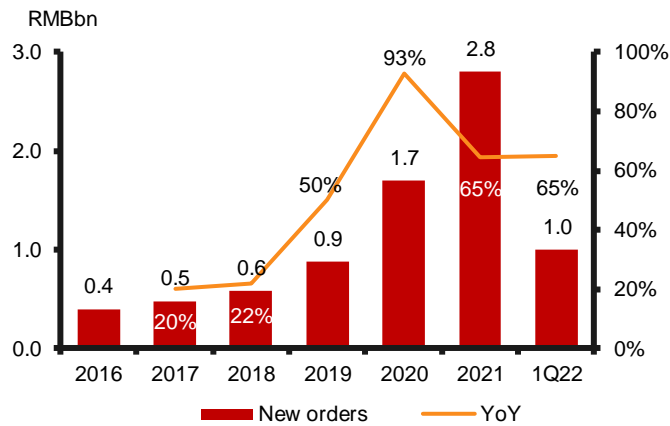


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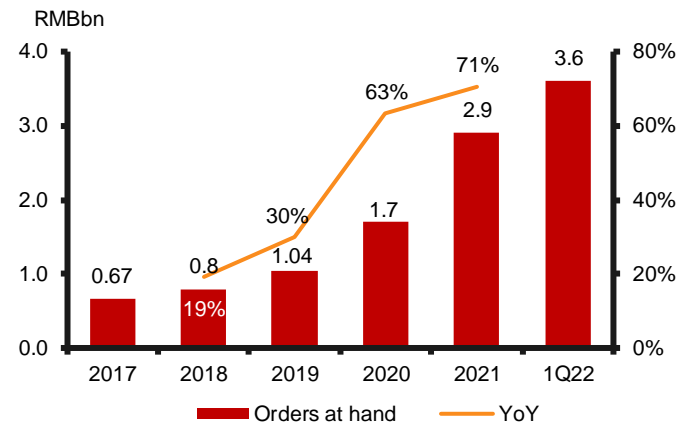
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Figure 1: Joinn's new orders

Source: Company data, CMBIGM

Figure 2: Joinn's total orders in hand

Source: Company data, CMBIGM

Figure 3: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	2,193	3,066	4,196	2,193	3,066	4,196	0.00%	0.00%	0.00%
Gross Profit	1,013	1,432	1,961	1,013	1,432	1,961	0.00%	0.00%	0.00%
Operating Profit	860	1,139	1,479	860	1,139	1,491	-0.08%	0.00%	-0.81%
Net profit	749	992	1,288	749	992	1,299	-0.08%	0.00%	-0.81%
EPS (RMB)	1.96	2.60	3.38	1.97	2.60	3.41	-0.18%	-0.09%	-0.90%
Gross Margin	46.18%	46.71%	46.74%	46.18%	46.71%	46.74%	0.00ppt	0.00ppt	0.00ppt
Operating Margin	39.20%	37.14%	35.25%	39.23%	37.14%	35.54%	-0.03ppt	0.00ppt	-0.29ppt
Net Margin	34.14%	32.35%	30.70%	34.17%	32.34%	30.95%	-0.03ppt	0.00ppt	-0.25ppt

Source: Company data, CMBIGM estimates

Figure 4: CMBIGM estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	2,193	3,066	4,196	2,153	2,939	3,825	1.87%	4.32%	9.70%
Gross Profit	1,013	1,432	1,961	1,041	1,415	1,848	-2.71%	1.22%	6.12%
Operating Profit	860	1,139	1,479	830	1,074	1,377	3.62%	6.03%	7.43%
Net profit	749	992	1,288	721	934	1,172	3.91%	6.18%	9.92%
EPS (RMB)	1.96	2.60	3.38	1.89	2.45	3.08	3.76%	6.07%	9.75%
Gross Margin	46.18%	46.71%	46.74%	48.36%	48.15%	48.32%	-2.17ppt	-1.43ppt	-1.58ppt
Operating Margin	39.20%	37.14%	35.25%	38.54%	36.54%	36.00%	+0.66ppt	+0.60ppt	-0.75ppt
Net Margin	34.14%	32.35%	30.70%	33.47%	31.78%	30.64%	+0.67ppt	+0.57ppt	+0.06ppt

Source: Company data, CMBIGM estimates

Figure 5: DCF valuation for Joinn

DCF Valuation (in RMB mn)	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
EBIT	801	1,100	1,100	1,430	1,844	2,361	2,998	3,777	4,722
Tax rate	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%
EBIT*(1-tax rate)	697	957	957	1,244	1,604	2,054	2,608	3,286	4,108
+ D&A	147	213	265	329	407	498	606	730	872
- Change in working capital	(50)	28	12	15	19	23	28	34	40
- Capx	(700)	(700)	(600)	(600)	(600)	(600)	(600)	(600)	(600)
FCFF	94	497	634	988	1,430	1,975	2,642	3,450	4,420
Terminal value									57,375
Terminal growth rate	3.0%								
WACC	10.9%								
Cost of Equity	13.8%								
Cost of Debt	5.0%								
Equity Beta	0.9								
Risk Free Rate	3.0%								
Market Risk Premium	12.0%								
Target Debt to Asset ratio	30.0%								
Effective Corporate Tax Rate	15.0%								
Terminal value (RMBmn)	22,548								
Total PV (RMBmn)	30,582								
Net debt (RMBmn)	(3,437)								
Minority interest (RMBmn)	7								
Equity value (RMBmn)	34,011								
# of shares (mn)	382								
Price per share (in RMB)	89.13								
Price per share (in HK\$)	107.38								

Source: CMBIGM estimates

Figure 6: Peer's valuation

Company	Ticker	Rating	Mkt. Cap (US\$m)	Net profit YoY			P/E (x)		P/B (x)		ROE (%)	
				FY22E	FY23E	FY24E	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
H-share												
WuXi AppTec	2359 HK	NR	45,632	50.9%	21.4%	31.4%	35.2	29.0	6.2	5.2	18.8	19.5
WuXi Bio	2269 HK	BUY	32,248	29.5%	37.0%	36.1%	47.8	34.9	5.6	4.7	13.2	15.4
Pharmaron	3759 HK	NR	14,256	25.2%	34.5%	32.4%	32.1	23.8	5.4	4.5	18.6	20.6
Tigermid	3347 HK	NR	11,403	94.5%	30.2%	28.5%	23.7	18.2	2.8	2.4	14.7	14.8
Asymchem	6821 HK	NR	10,347	130.6%	2.2%	21.4%	14.9	14.6	2.4	2.2	17.5	15.1
Joinn	6127 HK	BUY	5,299	34.3%	32.4%	29.9%	25.0	18.9	2.4	2.1	9.6	11.2
						Average	29.8	23.2	4.1	3.5	15.4	16.1
A-share												
WuXi AppTec	603259 CH	BUY	45,632	50.9%	21.4%	31.4%	39.7	32.7	6.6	5.5	17.8	18.1
Pharmaron	300759 CH	NR	14,256	30.3%	34.9%	35.2%	45.9	34.0	8.1	6.6	18.1	19.9
Tigermid	300347 CH	BUY	11,403	94.5%	30.2%	28.5%	32.6	25.1	3.7	3.2	15.4	15.7
Asymchem	002821 CH	NR	10,347	146.9%	4.5%	17.9%	27.8	26.0	4.6	4.0	19.0	17.2
Porton	300363 CH	NR	6,086	162.0%	12.8%	20.0%	29.4	25.9	7.5	5.9	25.0	22.2
Joinn	603127 CH	NR	5,299	34.3%	32.4%	29.9%	50.7	38.3	4.8	4.4	9.4	10.9
						Average	37.7	30.3	5.9	4.9	17.4	17.3
Foreign CXOs												
Lonza	LONN SW	NR	44,269	8.0%	19.1%	16.3%	40.8	34.7	4.2	3.9	10.9	12.5
Samsung Bio	207940 KS	NR	47,450	48.0%	30.4%	7.2%	105.0	84.2	9.9	8.5	10.2	11.6
IQVIA	IQV US	NR	41,528	12.3%	10.6%	13.8%	23.6	20.6	6.4	5.8	31.9	36.4
ICON	ICLR US	NR	18,295	45.2%	14.2%	17.2%	21.2	18.3	2.2	2.0	11.5	12.5
Charles River	CRL US	NR	12,302	15.1%	16.0%	16.8%	24.8	21.6	3.9	3.3	20.3	20.3
Syneos	SYNH US	NR	7,227	15.1%	12.4%	12.0%	15.5	13.7	1.9	1.7	14.8	15.3
						Average	38.5	32.2	4.7	4.2	16.6	18.1

Source: Bloomberg, CMBIGM estimates, as of 29 Apr 2022

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	1,076	1,517	2,193	3,066	4,196
Non-clinical studies services	1,053	1,484	2,152	3,013	4,127
Clinical trial and related	21	31	39	51	66
Others	27	93	102	113	124
Cost of services	(525)	(781)	(1,180)	(1,634)	(2,235)
Gross profit	551	736	1,013	1,432	1,961
Other gains and losses, net	32	113	99	93	99
Gains arising from	55	125	180	200	200
Selling and marketing exp.	(13)	(16)	(22)	(31)	(42)
General and administrative exp.	(211)	(264)	(340)	(460)	(608)
R&D expenses	(51)	(48)	(66)	(92)	(126)
Finance costs	(4)	(4)	(4)	(4)	(4)
Share of losses of an associate	0	(0)	0	0	0
Profit before taxation	359	642	860	1,139	1,479
Income tax	(47)	(86)	(112)	(148)	(192)
Profit for the year	312	556	748	991	1,287
Non-controlling interests	(1)	(1)	(1)	(1)	(1)
Profit attributable to shareholders	313	557	749	992	1,288

Cash flow summary

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Profit before tax	359	642	860	1,139	1,479
D&A	83	101	147	213	265
Change in working capital	52	98	(50)	28	12
Tax paid	(33)	(42)	(112)	(148)	(192)
Others	(23)	(115)	(176)	(196)	(196)
Net cash fr. operating act.	438	685	669	1,035	1,368
Capex	(141)	(220)	(700)	(700)	(600)
Acquisition of subsidiaries	0	(26)	(1,805)	0	0
Other investing activities	(110)	(1,823)	0	0	0
Net cash fr. investing act.	(251)	(2,069)	(2,505)	(700)	(600)
Net proceeds from shares issued	33	5,421	0	0	0
Bank borrowing	4	(4)	0	0	0
Other financing activities	(87)	(127)	(191)	(252)	(326)
Net cash fr. financing act.	(50)	5,290	(191)	(252)	(326)
Effect of foreign exchange	(9)	(61)	0	0	0
Net change in cash	128	3,845	(2,027)	83	442
Cash at beginning of the year	177	305	4,154	2,127	2,210
Cash at the end of the year	305	4,150	2,127	2,210	2,651

Balance sheet

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Non-current assets	990	2,723	5,081	5,568	5,903
PP&E	646	815	1,380	1,879	2,227
Intangible assets	63	57	45	33	21
Goodwill	125	122	122	122	122
Biological assets	19	74	74	74	74
Other non-current assets	137	1,654	3,459	3,459	3,459
Current assets	1,183	5,814	4,209	4,865	5,999
Cash at bank and on hand	309	4,154	2,127	2,210	2,651
Inventories	91	106	149	206	282
Trade and bills receivables	91	116	149	209	286
Biological assets	67	160	340	540	740
Other current assets	624	1,278	1,444	1,700	2,039
Current liabilities	774	1,214	1,406	1,807	2,311
Interest-bearing borrowings	3	5	5	5	5
Trade payables	60	54	86	119	163
Contract liabilities	584	972	1,132	1,499	1,959
Other current liabilities	127	184	184	184	184
Non-current liabilities	177	178	178	178	178
Interest-bearing borrowings	21	5	5	5	5
Other non-current liabilities	155	173	173	173	173
Total net assets	1,222	7,144	7,705	8,448	9,413
Minority interest	(1)	8	7	6	5
Shareholders' equity	1,223	7,136	7,698	8,442	9,408

Key ratios

YE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Sales mix (%)					
Non-clinical studies services	98	98	98	98	98
Clinical trial and related	2	2	2	2	2
Others	2	6	5	4	3
Total	102	106	105	104	103
Profit & loss ratios (%)					
Gross margin	51	49	46	47	47
EBITDA margin	41	44	43	43	41
Pre-tax margin	33	42	39	37	35
Net margin	29	37	34	32	31
Effective tax rate	13	13	13	13	13
Balance sheet ratios					
Current ratio (x)	153	479	299	269	260
Trade receivables turnover days	32	25	25	25	25
Trade payables turnover days	33	27	27	27	27
Net debt to total equity ratio (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Returns (%)					
ROE	36.8	45.6	10.5	12.9	15.2
ROA	38.7	50.6	17.5	21.3	24.7
Per share value					
EPS (RMB)	0.99	1.51	1.96	2.60	3.38
DPS (RMB)	0.30	0.37	0.49	0.65	0.84
BVP (RMB)	3.87	19.37	20.19	22.14	24.67

Source: Company data, CMBIGM estimates

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