

EC Healthcare (2138 HK)

Expect strong recovery from COVID lock-down in HK

- FY22 earnings impacted by COVID lock-down.** EC Healthcare (EC) reported FY22 revenue of HK\$2,920mn, up 40% YoY, total net profit of HK\$271mn, up 20% YoY, and attributable net profit of HK\$198mn, up 2% YoY. Revenue was in line with our forecast while attributable net profit missed our forecast of HK\$374mn because its beauty and wellness business was negatively impacted from the 5th COVID-19 outbreak in HK. However, the Company saw improvements in operating expense ratio, which dropped from 78.0% in FY21 to 75.3% in FY22. As of Mar 2022, EC operates a total of 147 service points with the total aggregate GFA increased by 34.2% YoY to approximately 534,000 sq ft.
- Expect strong recovery from COVID lock-down.** Due to the serious 5th wave of COVID-19 outbreak in HK, EC's beauty and wellness business was under compulsory closure for 84 days in 4QFY22 and 20 days in 1QFY23 (vs 142 days in FY21). As a result, revenue of aesthetic medical and beauty and wellness segment grew moderately by 10% YoY in FY22. Despite the 20-day lock-down impact, management estimated that the sales volume in 1QFY23 would increase by 14% YoY to HK\$830mn, indicating strong demand recovery post the COVID outbreak. We expect the HK government will avoid taking extreme measures to control COVID outbreak in the future, which is also a similar trend in major regions worldwide. Thus, we expect EC to experience strong business recovery in FY23E.
- M&A as a key driver to grow into a one-stop healthcare service provider in HK and other regions.** EC completed HK\$717mn of M&As during Apr 2021 and Jun 2022, which consistently enhanced the Company's capabilities in various service categories, such as dental, veterinary, pain management and other medical specialties. EC spent HK\$269mn in acquiring dental clinics during the period, including the acquisition of 55% stake of Bayley & Jackson Dental Surgeons, a premium dental brand in HK, for HK\$129mn. EC also invested HK\$201mn to bring more veterinary brands into its network in FY22 and targeted to take 10-15% share of the veterinary market in HK. Additionally, EC agreed to invest up to HK\$275mn for a 30% stake in a hospital grade medical building in Tsim Sha Tsui of HK, with an estimated lettable floor area of approximately 103,000 sq ft and the targeted opening date of 2025. As of end-FY22, EC maintained a strong balance sheet with HK\$167mn net cash on hand, which left significant room for expansion via M&As in the future.
- Maintain BUY.** We cut our TP from HK\$22.40 to HK\$13.90, based on a 10-year DCF model (WACC: 11.1%, terminal growth rate: 2.0%) to reflect margin pressure due to previous COVID lockdowns and business diversification.

Earnings Summary

(YE 31 Mar)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (HK\$ mn)	2,080	2,920	3,806	4,860	6,038
YoY growth (%)	7	40	30	28	24
Net income (HK\$ mn)	193	198	418	588	804
EPS (HK\$)	0.19	0.17	0.35	0.50	0.68
Consensus EPS (HK\$)			0.37	0.54	0.46
P/S (x)	4.5	3.2	2.4	1.9	1.5
P/E (x)	42.0	46.1	22.2	15.8	11.6
ROE	16.1	13.6	20.7	26.2	31.3
Net gearing (%)	Net cash	Net cash	2.23	1.05	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price **HK\$13.90**
 (Previous TP **HK\$22.40**)
 Up/Downside **+76.23%**
 Current Price **HK\$7.89**

China Healthcare Sector

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Stock Data

Mkt Cap (HK\$ mn)	9,297
Avg 3 mths t/o (HK\$ mn)	8.82
52w High/Low (HK\$)	16.26/5.8
Total Issued shares (mn)	1,178

Source: Bloomberg

Shareholding Structure

Management	65.08%
Goldman Sachs	5.50%
Others	29.42%

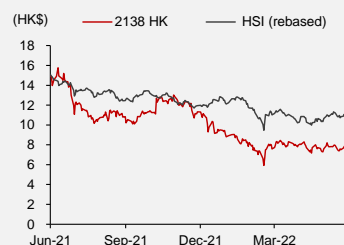
Source: Company, HKEX

Share Performance

	Absolute	Relative
1-mth	7.8%	0.1%
3-mth	4.1%	2.6%
6-mth	-30.3%	-25.5%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: KPMG

Related Reports

- Strong recovery continued – 1 Dec 2021
- Jockeying for position in aesthetic medical in China – 5 Jul 2021

Figure 1: Earnings revision

HK\$ mn	New			Old			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	3,806	4,860	6,038	3,844	4,876	NA	-1.0%	-0.3%	NA
Gross Profit	3,368	4,325	5,404	3,444	4,379	NA	-2.2%	-1.2%	NA
Operating Profit	642	886	1,195	775	1,089	NA	-17.1%	-18.6%	NA
Net profit	418	588	804	543	770	NA	-22.9%	-23.6%	NA
EPS (HK\$)	0.35	0.50	0.68	0.46	0.65	NA	-23.0%	-23.6%	NA
Gross Margin	88.50%	89.00%	89.50%	89.60%	89.80%	NA	-1.10ppt	-0.80ppt	NA
Operating Margin	16.88%	18.23%	19.79%	20.16%	22.33%	NA	-3.28ppt	-4.10ppt	NA
Net Margin	10.99%	12.10%	13.31%	14.12%	15.78%	NA	-3.13ppt	-3.68ppt	NA

Source: Company data, CMBIGM estimates

Figure 2: CMBIGM estimates vs consensus

HK\$ mn	CMBIGM			Consensus			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	3,806	4,860	6,038	3,687	4,695	5,709	3.2%	3.5%	5.8%
Gross Profit	3,368	4,325	5,404	2,342	3,009	862	43.8%	43.7%	526.9%
Operating Profit	642	886	1,195	666	943	1,080	-3.5%	-6.0%	10.7%
Net profit	418	588	804	437	611	663	-4.3%	-3.7%	21.2%
EPS (HK\$)	0.35	0.50	0.68	0.37	0.54	0.46	-3.0%	-6.9%	48.3%
Gross Margin	88.50%	89.00%	89.50%	63.53%	64.10%	15.10%	+24.97ppt	+24.9ppt	+74.40ppt
Operating Margin	16.88%	18.23%	19.79%	18.05%	20.09%	18.92%	-1.18ppt	-1.85ppt	+0.88ppt
Net Margin	10.99%	12.10%	13.31%	11.85%	13.01%	11.61%	-0.86ppt	-0.90ppt	+1.70ppt

Source: Company data, CMBIGM estimates

Figure 3: Valuation on risk-adjusted DCF valuation

DCF Valuation (in HK\$ mn)	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E
EBIT	642	886	1,195	1,398	1,608	1,817	2,017	2,199	2,352	2,470
Tax rate	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%
EBIT*(1-tax rate)	546	753	1,016	1,189	1,367	1,545	1,714	1,869	2,000	2,100
+ D&A	438	530	622	697	766	827	877	912	930	930
- Change in working capital	(113)	(50)	(45)	(51)	(56)	(61)	(64)	(67)	(68)	(68)
- Capex	(800)	(850)	(950)	(500)	(500)	(500)	(500)	(500)	(500)	(500)
FCFF	71	383	642	1,334	1,577	1,812	2,027	2,214	2,362	2,462
Terminal value										27,672
Terminal growth rate		2.0%								
WACC		11.1%								
Cost of Equity		14.0%								
Cost of Debt		5.0%								
Equity Beta		1.1								
Risk Free Rate		3.0%								
Market Risk Premium		10.0%								
Target Debt to Asset ratio		30.0%								
Effective Corporate Tax Rate		15.0%								
Terminal value (HK\$ mn)		9,680								
Total PV (HK\$ mn)		17,003								
Net debt (HK\$ mn)		57								
Minority interest (HK\$ mn)		561								
Equity value (HK\$ mn)		16,385								
# of shares (mn)		1,178								
Price per share (HK\$ per share)		13.90								

Source: CMBIGM estimates

Financial Summary

Income statement

YE 31 Mar (HK\$ mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue	2,080	2,920	3,806	4,860	6,038
Medical services	1,026	1,689	2,111	2,597	3,116
Aesthetic medical and beauty and wellness services and related revenue	990	1,091	1,528	2,062	2,681
Other services	64	139	167	201	241
Cost of sales	(235)	(350)	(438)	(535)	(634)
Gross profit	1,845	2,570	3,368	4,325	5,404
Registered practitioner exp.	(449)	(656)	(837)	(1,093)	(1,389)
Employee benefit exp.	(580)	(729)	(913)	(1,118)	(1,328)
Selling & marketing exp.	(109)	(139)	(171)	(209)	(242)
Rental and related exp.	(48)	(61)	(76)	(97)	(121)
D&A	(310)	(432)	(521)	(641)	(767)
Other expenses	(1,211)	(1,646)	(1,877)	(2,273)	(2,651)
Operating profit	285	371	642	886	1,195
Finance costs	(24)	(49)	(42)	(42)	(42)
Share of profits less losses of JV	5	(1)	0	0	0
Profit before tax	266	321	600	844	1,153
Income tax expense	(40)	(51)	(90)	(127)	(173)
Total net profit	226	271	510	717	980
Minority Interests	33	73	92	129	176
Profit attributable to shareholders	193	198	418	588	804

Cash flow summary

YE 31 Mar (HK\$ mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Profit before tax	361	266	321	600	844
Depreciation	233	278	361	438	530
Amortization of intangible assets	13	32	71	84	112
Change in working capital	14	80	52	(113)	(50)
Others	(44)	(35)	(1)	(48)	(84)
Net cash fr. operating act.	576	621	805	961	1,351
Capex	(70)	(136)	(159)	(550)	(650)
Other investing activities	386	(233)	(691)	(300)	(250)
Net cash fr. investing act.	316	(369)	(850)	(850)	(900)
Dividend paid	(345)	(114)	(170)	(293)	(382)
Proceeds from new borrowings	145	609	0	700	0
Other financing activities	(540)	(338)	154	(42)	(42)
Net cash fr. financing act.	(739)	157	(15)	365	(425)
Net change in cash	153	409	(61)	476	27
Cash at beginning of the year	367	520	931	870	1,346
Effects of exchange rate	0	2	0	0	0
Cash at the end of the year	520	931	870	1,346	1,373

Balance sheet

YE 31 Mar (HK\$ mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Non-current assets	2,376	3,345	3,674	3,932	4,165
PP&E	792	1,193	1,329	1,438	1,519
Investment properties	186	197	174	185	232
Goodwill	477	709	709	709	709
Intangible assets	512	692	658	596	502
Prepayments	169	212	212	212	212
Others	239	342	592	792	992
Current assets	1,415	1,516	2,066	2,213	2,514
Inventories	40	101	88	108	128
Trade receivables	179	155	197	225	247
Deferred cost	63	143	143	143	143
Cash and cash equivalents	931	870	1,346	1,373	1,552
Others	202	246	292	364	445
Current liabilities	1,317	1,363	2,025	2,095	2,172
Trade payables	47	75	61	77	94
Bank borrowings	287	0	700	700	700
Lease liabilities	207	319	319	319	319
Others	776	970	945	1,000	1,059
Non-current liabilities	842	1,147	1,147	1,147	1,147
Lease liabilities	295	387	387	387	387
Others	548	760	760	760	760
Total net assets	1,631	2,351	2,568	2,903	3,361
Minority interest	362	469	561	690	867
Shareholders' equity	1,631	2,351	2,568	2,903	3,361

Key ratios

YE 31 Mar	FY21A	FY22A	FY23E	FY24E	FY25E
Sales mix (%)					
Medical services	49.3	57.9	55.5	53.4	51.6
Aesthetic medical and beauty and wellness services and related revenue	47.6	37.4	40.1	42.4	44.4
Other services	3.1	4.8	4.4	4.1	4.0
Total	100.0	100.0	100.0	100.0	100.0
Profit & loss ratios (%)					
Gross margin	89	88	89	89	90
EBITDA margin	29	27	31	31	32
Net margin	11	9	13	15	16
Effective tax rate	15	16	15	15	15
Balance sheet ratios					
Current ratio (x)	1	1	1	1	1
Trade receivables turnover	23	21	19	17	15
Trade payables turnover days	64	64	64	64	64
Net debt to total equity ratio (%)	Net cash	Net cash	2	1	Net cash
Returns (%)					
ROE	16.1	13.6	20.7	26.2	31.3
ROA	7.1	6.3	9.6	12.1	15.3
Per share value					
EPS (HK\$)	0.19	0.17	0.35	0.50	0.68
DPS (HK\$)	0.17	0.15	0.25	0.32	0.44
BVP (HK\$)	1.59	2.04	2.18	2.46	2.85

Source: Company data, CMBIGM estimates

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