

Jinxin Fertility (1951 HK)

Acquisition of two sizable IVF hospitals in Yunnan Province

Jinxin and a private equity fund together acquired the whole stake in two IVF hospitals located in Kunming city, Yunnan Province. Upon completion of the transaction, Jinxin will hold a combined stake of 19.33% in the two IVF hospitals, including 1) Jiuzhou Hospital (云南九州医院) and 2) Hewanjia Hospital (昆明和万家妇产医院). Raise DCF-based TP to HK\$22.26.

- Acquisition priced at very attractive valuation.** In Yunnan, there are 14 IVF licenses/players while the top four hospitals occupied 72% market share in 2019. Jiuzhou Hospital and Hewanjia Hospital in aggregate ranked first among private for-profit IVF hospitals in 2020 in Yunnan province in terms of number of egg retrieval cycles with an aggregate of 2,718 cycles, or c.14% market share. The two hospitals recorded a total revenue of RMB264.6mn in FY20 and RMB32.6mn total net profit during the same period, indicating 12.3% net profit margin. The deal is valued at RMB740mn, indicating attractive valuation multiples of 23.4x FY20 P/E and 2.8x FY20 P/S. Jinxin has attracted Yanping Ma (马艳萍), a renowned expert to join and lead the operations of the two hospitals. We expect the two hospitals to experience accelerating revenue growth and improving operating margins thanks to potential significant operating synergies with Jinxin.
- 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 total China population. Given most of Jinxin's network hospitals located in Southern China, there are significant operation synergies and strong brand awareness in the regions, in our view.
- Fast ramp up of Wuhan Jinxin Hospital.** Following the acquisition of 75% stake in Wuhan Jinxin Hospital in Jun 2020, the Company has recruited renowned experts to join the hospital and has completed renovation of the facilities. Thanks to improving brand awareness and expanding physician team, Wuhan Jinxin has attracted more patients and will finish over 500 IVF cycles in 1H21E. The management aims to reach 3,000 IVF cycles per annum in Wuhan within the next 3 years of operation.
- Lift TP to HK\$22.26.** We believe there is a chance that more M&As will be completed within this year. To factor in the fast ramp-up of Wuhan hospital and better M&A outlook, we slightly adjusted our estimates and lifted DCF-based TP HK\$15.51 to HK\$22.26 (WACC: 9.5%, terminal growth rate: 3.0%).
Catalyst: Acquisitions of quality assets; **Risk:** Impact from COVID-19 pandemic.

Earnings Summary

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	1,648	1,426	1,801	2,329	2,899
YoY growth (%)	79	-13	26	29	24
Net profit (RMB mn)	410	252	385	544	715
EPS (RMB)	0.19	0.10	0.15	0.22	0.29
YoY growth (%)	N/A	0	46	41	31
Consensus EPS (RMB)	N/A	0.10	0.15	0.22	0.30
P/E (x)	82.3	145.7	99.5	70.3	53.5
P/B (x)	4.4	4.9	4.3	4.0	3.7
Yield (%)	0.45	0.00	0.00	0.00	0.00
ROE (%)	6.7	3.3	4.7	5.9	7.3
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price	HK\$22.26
(Previous TP)	HK\$19.55)
Up/Downside	+20.99%
Current Price	HK\$18.40

China Healthcare Sector

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Mkt. Cap. (HK\$ mn)	46,140
Avg. 3mths t/o (HK\$ mn)	287.21
52W High/Low (HK\$)	24.55/ 9.21
Total Issued Shares (mn)	2,508
Source: Bloomberg	

Shareholding Structure

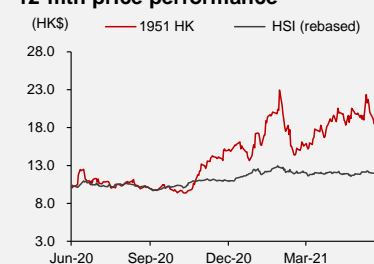
Management	26.02%
Warburg Pincus	18.36%
HRC Physician	14.82%
Other institutional investors	22.58%
Employee holdings	1.35%
Public shareholders	16.87%
Source: HKEx, Bloomberg	

Share performance

	Absolute	Relative
1-mth	-7.2%	-7.8%
3-mth	18.3%	19.0%
6-mth	23.2%	13.3%

Source: Bloomberg

12-mth price performance



Source: Bloomberg

Auditor: Deloitte

Web-site: www.jxr-fertility.com

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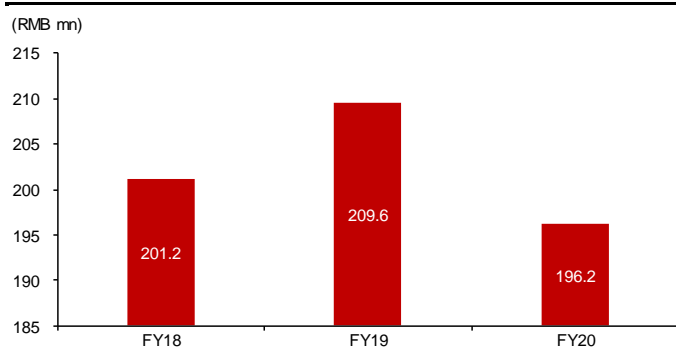
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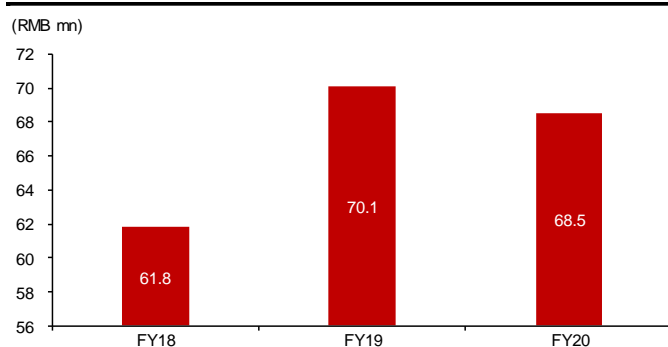
Figure 1: Details of Jiuzhou Hospital and Hewanjia Hospital

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	652 cycles in FY19; 522 cycles in FY20
Number of new born	394 in FY19; 353 in FY20	459 in FY19; 501 in FY20

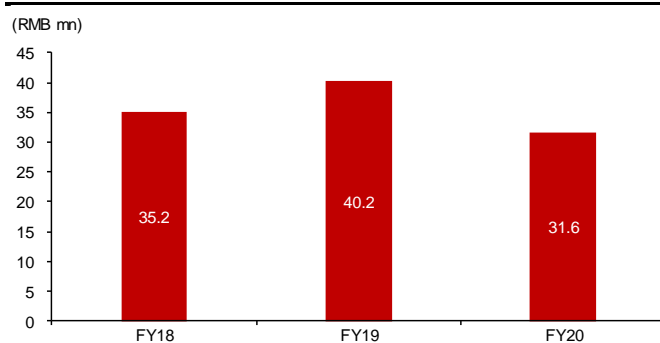
Source: Company data, CMBIS

Figure 2: Jiuzhou Hospital's revenue (FY18-FY20)

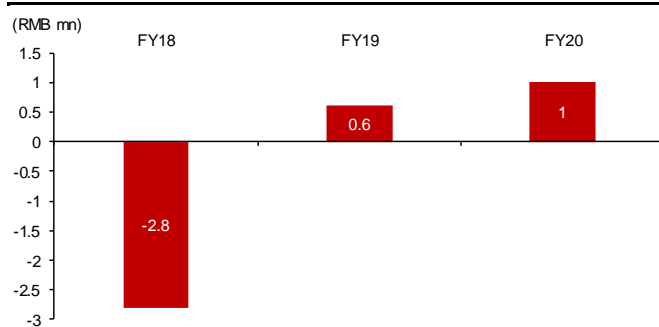
Source: Company data, CMBIS

Figure 3: Hewanjia Hospital's revenue (FY18-FY20)

Source: Company data, CMBIS

Figure 4: Jiuzhou Hospital's net profit (FY18-FY20)

Source: Company data, CMBIS

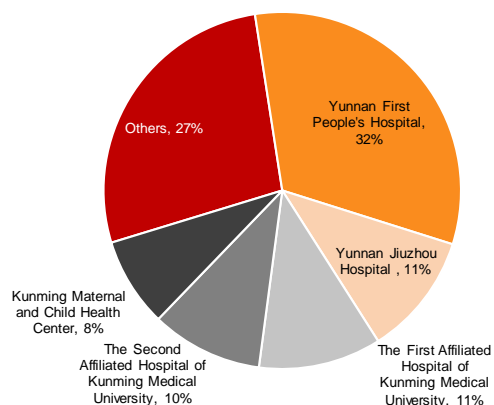
Figure 5: Hewanjia Hospital's net profit (FY18-FY20)

Source: Company data, CMBIS

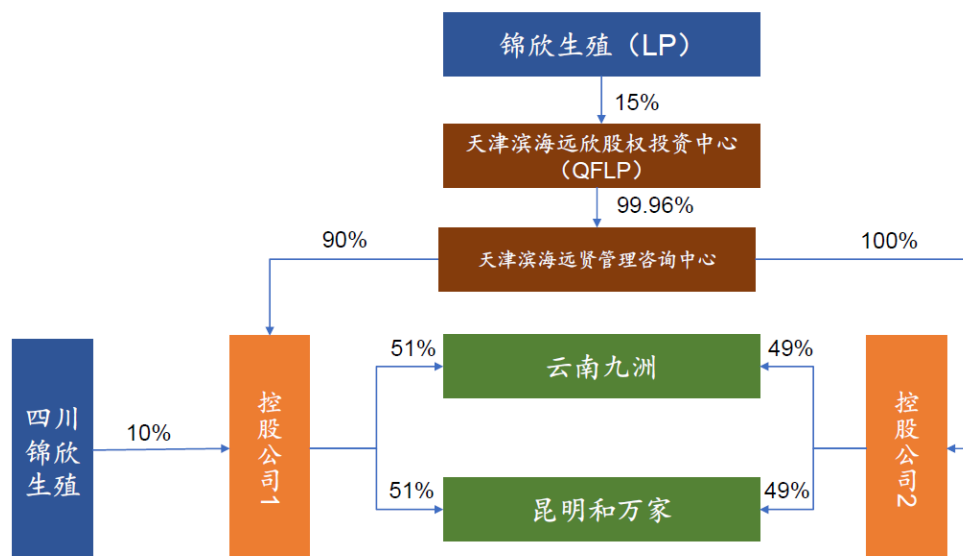
Figure 6: Number of IVF hospitals in Yunnan Province

City	Number of hospitals with IVF license
Kunming	11
Chuxiong	1
Dali	1
Qujing	1
Total	14

Source: Company data, CMBIS

Figure 7: 2019 ARS market share by hospital in Yunnan Province


Source: Company data, CMBIS

Figure 8: Shareholding structure of Jiuzhou Hospital and Hewanjia Hospital


Source: Company data, CMBIS

Figure 9: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	1,801	2,329	2,899	1,781	2,285	2,840	1%	2%	2%
Gross Profit	810	1,095	1,391	801	1,074	1,363	1%	2%	2%
Operating Profit	531	751	987	526	733	962	1%	2%	3%
Net profit	385	544	715	381	531	697	1%	2%	3%
EPS (RMB cents)	15	22	29	15	21	28	1%	2%	3%
Gross Margin	45.00%	47.00%	48.00%	45.00%	47.00%	48.00%	0.00 ppt	0.00 ppt	0.00 ppt
Operating Margin	29.50%	32.27%	34.07%	29.52%	32.09%	33.87%	-0.02 ppt	+0.18 ppt	+0.20 ppt
Net Margin	21.37%	23.37%	24.68%	21.39%	23.25%	24.54%	-0.01 ppt	+0.13 ppt	+0.14 ppt

Source: Company data, CMBIS estimates

Figure 10: CMBIS estimates vs consensus

RMB mn	CMBIS			Consensus			Diff (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	1,801	2,329	2,899	1,755	2,202	2,708	3%	6%	7%
Gross Profit	810	1,095	1,391	799	1,041	1,301	1%	5%	7%
Operating Profit	531	751	987	463	655	868	15%	15%	14%
Net profit	385	544	715	401	557	709	-4%	-2%	1%
EPS (RMB cents)	15	22	29	15	22	30	2%	-1%	-3%
Gross Margin	45.00%	47.00%	48.00%	45.52%	47.27%	48.03%	-0.52 ppt	-0.27 ppt	-0.03 ppt
Operating Margin	29.50%	32.27%	34.07%	26.39%	29.75%	32.04%	+3.11 ppt	+2.52 ppt	+2.03 ppt
Net Margin	21.37%	23.37%	24.68%	22.84%	25.29%	26.17%	-1.47 ppt	-1.92 ppt	-1.49 ppt

Source: Company data, CMBIS estimates

Figure 11: Risk-adjusted DCF valuation

DCF Valuation (in Rmb mn)	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
EBIT	472	680	900	1,211	1,623	2,166	2,881	3,818	5,039	6,627
Tax rate	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%
EBIT*(1-tax rate)	354	510	675	908	1,217	1,625	2,161	2,863	3,779	4,970
+ D&A	134	139	139	159	181	206	232	261	293	326
- Change in working capital	(254)	(11)	(0)	(0)	(0)	(0)	(1)	(1)	(1)	(1)
- Capx	(120)	(100)	(100)	(80)	(80)	(80)	(80)	(80)	(80)	(80)
FCFF	113	537	714	987	1,318	1,750	2,313	3,044	3,991	5,216
Terminal value										82,520
Terminal growth rate	3.0%									
WACC	9.5%									
Cost of Equity	12.0%									
Cost of Debt	5.0%									
Equity Beta	0.9									
Risk Free Rate	3.0%									
Market Risk Premium	10.0%									
Target Debt to Asset ratio	30.0%									
Effective Corporate Tax Rate	26.0%									
Terminal value	33,268									
Total PV	43,461									
Net debt	(3,068)									
Minority interest	193									
Equity value	46,336									
# of shares (mn)	2,508									
Price per share (in Rmb)	18.48									
Price per share (in HK\$)	22.26									

Source: CMBIS estimates

Financial Summary

Income statement						Cash flow summary					
YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E	YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	1,648	1,426	1,801	2,329	2,899	Profit before tax	548	349	531	751	987
ARS	932	979	1,331	1,694	2,161	Depreciation for plant and equipment	66	76	80	85	85
Management service fee	648	375	398	561	661	Change in working capital	(74)	(108)	(254)	(11)	(0)
Ancillary medical services	68	72	71	73	76	Others	38	41	(16)	(28)	(43)
Cost of sales	(832)	(860)	(991)	(1,234)	(1,507)	Tax paid	(126)	(51)	(133)	(188)	(247)
Gross profit	817	566	810	1,095	1,391	Net cash from operating activities	453	308	208	609	782
Other income	63	74	89	100	116	Capex	(277)	(210)	(120)	(100)	(100)
Other expenses	(2)	(6)	(5)	(5)	(5)	Acquisition of subsidiaries	0	0	0	0	0
Other losses	28	57	4	9	11	Other investing activities	(2,429)	79	(73)	82	97
R&D expenses	(13)	(11)	(14)	(19)	(23)	Net cash from investing activities	(2,706)	(131)	(193)	(18)	(3)
Administrative expenses	(211)	(275)	(288)	(349)	(406)	Net proceeds from shares issued	2,934	0	1,065	0	0
Listing expenses	(63)	0	0	0	0	Bank borrowing	0	163	0	0	0
Finance cost	(9)	(13)	(10)	(10)	(10)	Advance from related parties	30	62	0	0	0
Profit before tax	548	349	531	751	987	Other financing activities	(1,317)	(280)	0	0	0
Income tax expense	(127)	(89)	(133)	(188)	(247)	Net cash from financing activities	1,647	(56)	1,065	0	0
Total net profit	421	260	398	564	741	Net change in cash	(606)	121	1,080	591	779
Minority Interests	(11)	(9)	(14)	(19)	(25)	Cash at the beginning of the year	1,184	580	682	1,762	2,353
Profit attributable to shareholders	410	252	385	544	715	Cash at the end of the year	580	682	1,762	2,353	3,132
Balance sheet						Key ratios					
YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E	YE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Non-current assets	5,515	6,511	6,640	6,602	6,563	Sales mix (%)					
Plant and equipment	857	1,056	1,096	1,111	1,126	ARS	56.5	68.6	73.9	72.7	74.6
Goodwill	809	890	1,033	1,033	1,033	Management service fee	39.3	26.3	22.1	24.1	22.8
License	388	786	768	750	733	Ancillary medical services	4.1	5.1	4.0	3.2	2.6
Contractual right to provide management services	1,963	1,839	1,839	1,839	1,839	Total	100	100	100	100	100
Trademarks	1,305	1,256	1,256	1,256	1,256	Profit & loss ratios (%)					
Others	193	684	648	612	576	Gross margin	50	40	45	47	48
Current assets	3,426	2,652	3,690	4,295	5,089	EBITDA margin	38	31	34	35	36
Inventories	26	25	27	34	41	Pre-tax margin	33	24	30	32	34
Accounts and other receivables	46	69	25	32	40	Net margin	25	18	21	23	25
Amounts due from related parties	50	81	81	81	81	Effective tax rate	23	25	25	25	25
Bank balances and cash	580	682	1,762	2,353	3,132	Balance sheet ratios					
Others	2,725	1,795	1,795	1,795	1,795	Current ratio (x)	8	5	14	16	18
Current liabilities	436	555	259	261	276	Trade receivables turnover days	3	2	5	5	5
Accounts and other payables	320	362	65	68	83	Trade payables turnover days	50	24	24	20	20
Capital contribution deposits	0	0	0	0	0	Net debt to total equity ratio (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Amounts due to related parties	41	68	68	68	68	Returns (%)					
Tax payables	46	61	61	61	61	ROE	6.7	3.3	4.7	5.9	7.3
Non-current liabilities	863	1,146	1,146	1,146	1,146	ROA	5.3	2.8	3.9	5.1	6.3
Deferred rent	0	0	0	0	0	Per share value					
Deferred tax liabilities	709	791	791	791	791	EPS (RMB)	0.19	0.10	0.15	0.22	0.29
Total net assets	7,642	7,462	8,926	9,490	10,230	DPS (RMB)	0.07	0.00	0.00	0.00	0.00
Minority interest	116	179	193	212	237	BVP (RMB)	3.46	3.11	3.56	3.78	4.08
Shareholders' equity	7,527	7,283	8,733	9,277	9,993						

Source: Company data, CMBIS estimates

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