

Jinxin Fertility (1951 HK)

Eyes on the post-pandemic business recovery

The multi-region operations (including Chengdu, Shenzhen, Wuhan, HK and US) of Jinxin in 2022 were adversely impacted by the strict pandemic control measures in China as well as the forced halt of cross-border IVF services at Jinxin's US branch. Given the harsh macro environment throughout the year of 2022, we expect Jinxin's financial performance to be sluggish, especially at the net profit side. However, as Chinese government changed its pandemic control policies in end-2022, we see an overall business recovery in 2023 for Jinxin. Considering the time needed for patients to initiating IVF treatment as well as to eliminate concerns on post-infection health conditions, we expect such business rebound to be reflected in Jinxin's financials after 1Q23.

■ **Business to experience significant recovery in 2023.** Jinxin's operations in Chengdu and Shenzhen serve as the cornerstone of the Company's business, accounting for 72%/68% of total revenue in 2020/2021, respectively. Chengdu and Shenzhen underwent multiple rounds of COVID spreads and city lock-downs and hospital operations were inevitably disrupted by those factors. As a result, we expect the number of IVF cycles performed in Jinxin's branches in the two cities to decline in 2022. However, IVF demand will be delayed, not vanished, in our view. With the changes of pandemic control policies in China, we are confident that Jinxin will see demand recovery in 2023. Moreover, border-reopening of China and US will boost the high-margin international IVF services, further releasing synergies from the multi-region network that Jinxin has been building in the past.

■ **Favourable policies to stimulate domestic birth rate.** To deal with the escalating problem of declining population growth, central and local governments in China are proactively seeking countermeasures and has issued various guidance and policies to support birth rate growth. The most recent policies include [Guiding Opinions to Further Improve and Implement Active Measures to Support Birth Rate](#) issued by National Health Commission and other departments in Aug 2022 and a draft plan to provide children-raising subsidies to families in [Shenzhen](#) in Jan 2023. We believe Chinese government will continue to explore new measures to stimulate birth rate in 2023 and IVF will be a critical and necessary tool to reaching that goal. As the largest private hospital chain to provide comprehensive IVF services in China, Jinxin is well positioned to benefit from the favourable policy environment.

■ **Maintain BUY.** We slightly revised our DCF-based TP from HK\$11.73 to HK\$11.25 (WACC: 10.2%, terminal growth: 4.0%) to reflect both the worse-than-expected 2022 earnings and the expected business recovery in 2023E. We forecast revenue to grow 27%/32%/22% YoY and adjusted non-IFRS attributable net income to grow -24%/59%/32% YoY in FY22E/23E/24E.

Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	1,426	1,839	2,342	3,097	3,771
YoY growth (%)	(13.5)	28.9	27.4	32.2	21.8
Net profit (RMB mn)	252	340	268	497	660
Adjusted net profit (RMB mn)	372	455	346	550	725
EPS (Adjusted) (RMB)	0.15	0.18	0.14	0.22	0.29
Consensus EPS (RMB)	na	na	0.18	0.23	0.30
P/E (x)	90.8	91.8	61.8	33.3	25.1
ROE (%)	3.5	4.5	3.0	5.3	6.7

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price **HK\$11.25**
 (Previous TP) **HK\$11.73**
Up/Downside **47.1%**
Current Price **HK\$7.65**

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Stock Data

Mkt Cap (HK\$ mn)	19,253.9
Avg 3 mths t/o (HK\$ mn)	5.8
52w High/Low (HK\$)	9.29/3.59
Total Issued Shares (mn)	2516.9

Source: FactSet

Shareholding Structure

Jinxin Fertility BV	12.7%
HRC Investment	11.9%

Source: HKEx

Share Performance

	Absolute	Relative
1-mth	9.8%	-1.1%
3-mth	113.1%	60.7%
6-mth	22.4%	17.1%

Source: FactSet

12-mth Price Performance



Source: FactSet

Figure 1: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	2,342	3,097	3,771	2,536	3,283	3,936	-7.64%	-5.67%	-4.20%
Gross Profit	937	1,301	1,602	1,065	1,395	1,692	-12.04%	-6.78%	-5.32%
Operating Profit	422	672	860	528	712	887	-20.14%	-5.66%	-3.12%
Adjusted net profit	346	550	725	450	610	766	-22.97%	-9.72%	-5.38%
Adjusted EPS (RMB)	0.14	0.22	0.29	0.18	0.24	0.30	-22.97%	-9.72%	-5.38%
Gross Margin	40.00%	42.00%	42.50%	42.00%	42.50%	43.00%	-2.00ppt	-0.50ppt	-0.50ppt
Operating Margin	18.00%	21.70%	22.80%	20.82%	21.70%	22.55%	-2.82ppt	0.00ppt	+0.25ppt
Net Margin	14.79%	17.78%	19.22%	17.73%	18.57%	19.46%	-2.94ppt	-0.80ppt	-0.24ppt

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	2,342	3,097	3,771	2,484	3,092	3,707	-5.72%	0.15%	1.71%
Gross Profit	937	1,301	1,602	1,033	1,303	1,598	-9.28%	-0.21%	0.27%
Operating Profit	422	672	860	490	707	900	-14.01%	-4.90%	-4.53%
Adjusted net profit	346	550	725	453	598	730	-23.48%	-7.98%	-0.76%
Adjusted EPS (RMB)	0.14	0.22	0.29	0.18	0.23	0.30	-22.68%	-6.53%	-2.37%
Gross Margin	40.00%	42.00%	42.50%	41.57%	42.15%	43.11%	-1.57ppt	-0.15ppt	-0.61ppt
Operating Margin	18.00%	21.70%	22.80%	19.74%	22.85%	24.29%	-1.74ppt	-1.15ppt	-1.49ppt
Net Margin	14.79%	17.78%	19.22%	18.22%	19.35%	19.70%	-3.43ppt	-1.57ppt	-0.48ppt

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	2031E
EBIT	435	686	873	1,087	1,348	1,665	2,048	2,509	3,061	3,719
Tax rate	22.8%	22.8%	22.8%	22.8%	22.8%	22.8%	22.8%	22.8%	22.8%	22.8%
EBIT*(1-tax rate)	336	530	675	840	1,041	1,286	1,582	1,938	2,364	2,872
+ D&A	156	156	156	186	221	262	309	364	425	496
- Change in working capital	(165)	25	24	28	34	40	47	56	65	76
- Capex	(1,800)	(300)	(300)	(200)	(200)	(200)	(200)	(200)	(200)	(200)
FCFF	(1,473)	410	554	854	1,096	1,388	1,739	2,157	2,655	3,244
Terminal value										54,193
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)	20,471									
Total PV (RMB mn)	24,654									
Net debt (RMB mn)	380									
Minority interest (RMB mn)	207									
Equity value (RMB mn)	24,067									
# of shares (mn)	2,517									
Price per share (RMB per share)	9.56									
Price per share (HK\$ per share)	11.25									

Source: CMBIGM estimates

Financial Summary

INCOME STATEMENT	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (RMB mn)						
Revenue	1,648	1,426	1,839	2,342	3,097	3,771
Cost of goods sold	(832)	(860)	(1,067)	(1,405)	(1,796)	(2,168)
Gross profit	817	566	771	937	1,301	1,602
Operating expenses	(287)	(328)	(400)	(515)	(629)	(743)
Selling expense	(62)	(41)	(62)	(94)	(102)	(121)
Admin expense	(211)	(275)	(328)	(410)	(511)	(603)
SG&A expense	(13)	(11)	(11)	(12)	(15)	(19)
Operating profit	530	238	371	422	672	860
Share of (losses)/profits of associates/JV	0	0	(10)	(10)	(10)	(10)
Net Interest income/(expense)	(9)	(13)	(21)	(120)	(94)	(92)
Other income/expense	27	125	118	41	45	52
Pre-tax profit	548	349	458	333	613	810
Income tax	(127)	(89)	(104)	(70)	(126)	(162)
Minority interest	(11)	(9)	(14)	5	9	12
Net profit	421	261	354	263	487	647
Adjusted net profit	530	372	455	346	550	725
Gross dividends	152	0	0	0	0	0

BALANCE SHEET	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (RMB mn)						
Current assets	3,426	2,652	2,543	1,957	2,247	2,696
Cash & equivalents	580	682	862	391	660	1,089
Account receivables	46	69	143	13	17	21
Inventories	26	25	47	62	79	95
Financial assets at FVTPL	53	63	219	219	219	219
Other current assets	2,722	1,813	1,273	1,273	1,273	1,273
Non-current assets	5,515	6,511	10,282	13,632	13,776	13,920
PP&E	857	1,056	1,092	2,807	3,022	3,237
Intangibles	3,656	3,881	5,207	5,183	5,159	5,134
Goodwill	809	890	2,720	4,426	4,426	4,426
Financial assets at FVTPL	0	0	178	178	178	178
Other non-current assets	193	684	1,086	1,039	992	945
Total assets	8,941	9,163	12,825	15,589	16,024	16,616
Current liabilities	436	555	1,072	3,492	3,438	3,381
Short-term borrowings	0	18	38	2,738	2,638	2,538
Account payables	320	362	446	166	212	255
Tax payable	46	61	107	107	107	107
Other current liabilities	70	114	481	481	481	481
Non-current liabilities	863	1,146	3,001	3,001	3,001	3,001
Long-term borrowings	0	145	126	126	126	126
Bond payables	0	0	1,493	1,493	1,493	1,493
Obligations under finance leases	153	210	371	371	371	371
Other non-current liabilities	709	791	1,011	1,011	1,011	1,011
Total liabilities	1,299	1,701	4,073	6,493	6,439	6,383
Share capital	0	0	0	0	0	0
Capital surplus	7,527	7,283	8,545	8,894	9,392	10,052
Total shareholders equity	7,527	7,283	8,545	8,894	9,392	10,053
Minority interest	116	179	207	202	193	181
Total equity and liabilities	8,941	9,163	12,825	15,589	16,024	16,616

CASH FLOW	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	548	349	458	334	614	811
Depreciation & amortization	66	76	99	85	85	85
Tax paid	(126)	(51)	(47)	(70)	(126)	(162)
Change in working capital	(74)	(108)	(246)	(165)	25	24
Others	38	41	80	172	142	134
Net cash from operations	453	308	343	356	740	891
Investing						
Capital expenditure	(270)	(210)	(72)	(1,800)	(300)	(300)
Acquisition of subsidiaries/ investments	0	(287)	(1,227)	(1,706)	0	0
Net proceeds from disposal of short-term investments	14	(8)	(280)	0	0	0
Others	(2,450)	1,657	12	19	23	29
Net cash from investing	(2,706)	1,152	(1,566)	(3,488)	(277)	(271)
Financing						
Dividend paid	(328)	(150)	0	0	0	0
Net borrowings	0	163	1	2,700	(100)	(100)
Proceeds from share issues	2,934	0	1,043	80	0	0
Share repurchases	0	(60)	(41)	0	0	0
Others	(959)	(8)	(48)	(120)	(94)	(92)
Net cash from financing	1,647	(56)	955	2,660	(194)	(192)
Net change in cash						
Cash at the beginning of the year	1,184	580	1,965	862	391	660
Exchange difference	2	(19)	(8)	0	0	0
Cash at the end of the year	580	1,965	1,689	391	660	1,089
GROWTH	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
Revenue	78.8%	(13.5%)	28.9%	27.4%	32.2%	21.8%
Gross profit	97.7%	(30.7%)	36.4%	21.4%	38.8%	23.2%
Operating profit	78.0%	(55.2%)	56.3%	13.5%	59.4%	27.9%
Net profit	98.3%	(38.1%)	35.8%	(25.7%)	85.4%	32.8%
Adj. net profit	100.7%	(29.8%)	22.3%	(23.9%)	58.9%	31.7%
PROFITABILITY	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
Gross profit margin	49.5%	39.7%	42.0%	40.0%	42.0%	42.5%
Operating margin	32.1%	16.7%	20.2%	18.0%	21.7%	22.8%
Adj. net profit margin	32.2%	26.1%	24.8%	14.8%	17.8%	19.2%
Return on equity (ROE)	7.1%	3.5%	4.5%	3.0%	5.3%	6.7%
GEARING/LIQUIDITY/ACTIVITIES	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
Net debt to equity (x)	(0.1)	(0.0)	0.1	0.5	0.4	0.3
Current ratio (x)	7.9	4.8	2.4	0.6	0.7	0.8
Receivable turnover days	3.0	3.0	2.0	2.0	2.0	2.0
Inventory turnover days	11.0	11.0	16.0	16.0	16.0	16.0
Payable turnover days	50.0	53.0	43.0	43.0	43.0	43.0
VALUATION	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
P/E	54.3	90.8	91.8	61.8	33.3	25.1
P/E (diluted)	54.5	91.4	92.7	61.8	33.3	25.1
P/B	2.9	3.1	3.6	1.8	1.7	1.6
P/CFPS	49.1	74.2	90.8	46.5	22.3	18.6
Div yield (%)	0.7	0.0	0.0	0.0	0.0	0.0

Source: Company data, CMBIGM estimates. Note: The calculation of net cash includes financial assets.

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