

# ClouDr (9955 HK)

## Margin improvement driven by economies of scale

ClouDr reported 2022 revenue of RMB2,988mn, up by 70.1% YoY, and adjusted net loss of RMB333mn, narrowed by 25% YoY. By segment, revenue of in-hospital solution increased by 71.6% YoY to RMB2,184mn (73.1% of total revenue), including the 89.1% YoY revenue growth for value added solution (i.e., hospital supplies and SaaS) and 33.9% YoY revenue growth for subscription solution (i.e., digital marketing services). Revenue of pharmacy solution grew by 76.0% YoY to RMB616mn (20.6% of total revenue), including the 86.1% YoY revenue growth for value added solution (i.e., pharmacy supplies) and 12.5% YoY revenue growth for subscription solution (i.e., pharmacy SaaS). Revenue of individual chronic condition management solution and others increased by 40.1% YoY to RMB188mn (6.3% of total revenue). Adjusted net loss margin was significantly reduced to 11.1% in 2022 from 25.3% in 2021, indicating an obvious effect of economies of scale.

■ **Strong growth in all segments under “hospital-first” strategy.** As a pioneer in China digital chronic condition management market, ClouDr continues to enhance its leading position and competency under its “hospital-first” strategy, through which the Company can efficiently expand its service lifecycle to cover patients and consumers in out-of-hospital scenarios. As of Dec 2022, ClouDr’s in-hospital SaaS was installed in 2,567 public hospitals in China, including 714 Class III public hospitals and 38 of China’s Top 100 hospitals. Via its expanding hospital SaaS installation pool, the Company has witnessed a rapid monetization progress by offering digital marketing services, high-margin services with a high growth ceiling, to domestic and MNC pharmaceutical companies, as well as providing supplies related to chronic condition diseases to hospitals. In the out-of-hospital scenarios, ClouDr’s pharmacy SaaS has been installed in more than 190k pharmacy stores as of 2022, representing ~30% penetration of China retail pharmacy market. 179mn online prescriptions were issued on ClouDr’s platform in 2022, making it one of the largest online prescription platforms in China.

■ **Consistent margin improvement driven by the economies of scale.** Marketing/ admin/ R&D expenses as % of revenue were reduced to 31.2%/ 11.2%/ 3.8% in 2022 from 44.8%/ 15.3%/ 13.4% in 2021, as ClouDr successfully monetized its SaaS network to grow revenue and achieve an increasing input-output ratio. Adjusted net loss margins reduced from 75.8% in 2020 to 25.3% in 2021, and further to 11.1% in 2022. Business disruptions caused by COVID outbreaks in 2022 did not affect the growth momentum of ClouDr, demonstrating the Company’s strong business resilience. We expect ClouDr to realize breakeven in terms of adjusted net profit in 2024E.

■ **Maintain BUY.** We revised our TP from HK\$31.43 to HK\$14.55, based on a 10-year DCF model (WACC: 10.0%, terminal growth rate: 3.0%), to reflect worse-than-expected GPM trend and valuation pressure on emerging online healthcare companies. We forecast ClouDr to see revenue growth of 44.1%/ 39.6%/ 34.6% YoY in 2023E/ 24E/ 25E, adjusted net loss of RMB143mn in 2023E, and adjusted net profit of RMB62mn/ RMB363mn in 2024E/25E, respectively.

### Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	1,757	2,988	4,305	6,009	8,086
YoY growth (%)	109.4	70.1	44.1	39.6	34.6
Adjusted net profit (RMB mn)	(444)	(333)	(143)	62	363
EPS (Adjusted) (RMB)	na	(0.11)	(0.24)	0.11	0.62
P/S (x)	2.2	1.3	0.9	0.7	0.5

Source: Company data, Bloomberg, CMBIGM estimates

**BUY (Maintain)**

**Target Price** **HK\$14.55**

(Previous TP) **HK\$31.43**

**Up/Downside** **84.7%**

**Current Price** **HK\$7.88**

**China Healthcare**

**Jill WU, CFA**

(852) 3900 0842

jillwu@cmbi.com.hk

**Benchen HUANG, CFA**

huangbenchen@cmbi.com.hk

### Stock Data

Mkt Cap (HK\$ mn)	4,625.9
Avg 3 mths t/o (HK\$ mn)	7.4
52w High/Low (HK\$)	NA/NA
Total Issued Shares (mn)	587.0

Source: FactSet

### Shareholding Structure

Ming Kuang	21.9%
Prime Forest Assets	12.5%

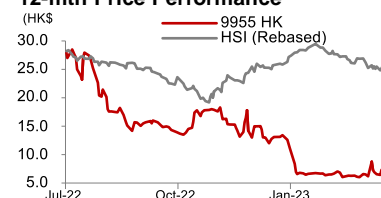
Source: HKEx

### Share Performance

	Absolute	Relative
1-mth	25.7%	26.3%
3-mth	-39.8%	-40.8%
6-mth	-46.9%	-52.2%

Source: FactSet

### 12-mth Price Performance



Source: FactSet

Figure 1: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	4,305	6,009	8,086	4,358	6,120	n/a	-1.20%	-1.82%	n/a
Gross Profit	1,208	1,655	2,215	1,546	2,199	n/a	-21.91%	-24.76%	n/a
Operating Profit	-359	-170	120	-329	67	n/a	n/m	n/m	n/a
Adjusted net profit	-143	62	363	-199	149	n/a	n/m	-58.25%	n/a
Adjusted EPS (RMB)	-0.24	0.11	0.62	-0.34	0.25	n/a	n/m	-58.25%	n/a
Gross Margin	28.05%	27.54%	27.39%	35.49%	35.94%	n/a	-7.44ppt	-8.40ppt	n/a
Operating Margin	-8.34%	-2.83%	1.48%	-7.55%	1.09%	n/a	-0.79ppt	-3.93ppt	n/a
Adjusted net Margin	-3.31%	1.03%	4.49%	-4.56%	2.43%	n/a	+1.25ppt	-1.40ppt	n/a

Source: Company data, CMBIGM estimates

Figure 2: CMBIGM estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	4,305	6,009	8,086	4,312	5,895	7,909	-0.15%	1.93%	2.23%
Gross Profit	1,208	1,655	2,215	1,470	2,110	2,905	-17.87%	-21.55%	-23.75%
Operating Profit	-359	-170	120	-316	41	426	n/m	n/m	-71.89%
Adjusted net profit	-143	62	363	-207	140	631	n/m	-55.67%	-42.48%
Adjusted EPS (RMB)	-0.24	0.11	0.62	-0.43	0.16	0.83	n/m	-32.67%	-25.51%
Gross Margin	28.05%	27.54%	27.39%	34.10%	35.79%	36.72%	-6.05ppt	-8.24ppt	-9.33ppt
Operating Margin	-8.34%	-2.83%	1.48%	-7.34%	0.69%	5.39%	-1.00ppt	-3.52ppt	-3.91ppt
Adjusted net Margin	-3.31%	1.03%	4.49%	-4.79%	2.37%	7.98%	+1.48ppt	-1.34ppt	-3.49ppt

Source: Company data, CMBIGM estimates

Figure 3: Risk-adjusted DCF valuation

DCF Valuation (in RMB mn)	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E
EBIT	(359)	(170)	120	199	320	499	754	1101	1552	2111
Tax rate	0.0%	0.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%
EBIT*(1-tax rate)	(359)	(170)	102	169	272	424	641	936	1,319	1,794
+ D&A	144	130	123	123	123	123	123	123	123	123
- Change in working capital	(69)	(278)	(227)	(295)	(369)	(443)	(509)	(560)	(588)	(588)
- Capex	(80)	(80)	(80)	(80)	(80)	(80)	(80)	(80)	(80)	(80)
FCFF	(364)	(398)	(82)	(83)	(54)	25	175	419	774	1,249
Terminal value										18,314
Terminal growth rate	3.0%									
WACC	10.0%									
Cost of Equity	12.5%									
Cost of Debt	5.0%									
Equity Beta	0.95									
Risk Free Rate	3.00%									
Market Risk Premium	10.00%									
Target Debt to Asset ratio	30.0%									
Effective Corporate Tax Rate	15.0%									
PV of terminal value (RMB mn)	7,045									
Total PV (RMB mn)	7,339									
Net debt (RMB mn)	47									
Minority interest (RMB mn)	31									
Equity value (RMB mn)	7,261									
Equity value (HK\$ mn)	8,542									
# of shares (mn)	587									
Price per share (HK\$ per share)	14.55									

Source: CMBIGM estimates

## Financial Summary

INCOME STATEMENT	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Revenue	839	1,757	2,988	4,305	6,009	8,086
Cost of goods sold	(606)	(1,187)	(2,196)	(3,098)	(4,354)	(5,871)
Gross profit	233	570	792	1,208	1,655	2,215
Operating expenses	(1,069)	(1,263)	(1,344)	(1,566)	(1,825)	(2,095)
Selling expense	(626)	(787)	(933)	(1,162)	(1,382)	(1,617)
Admin expense	(317)	(270)	(336)	(280)	(294)	(307)
R&D expense	(132)	(236)	(115)	(155)	(180)	(202)
Others	6	30	39	31	31	32
Operating profit	(837)	(693)	(552)	(359)	(170)	120
Net Interest income/(expense)	(58)	(62)	(8)	(15)	(22)	(22)
Others	(2,003)	(3,398)	(1,088)	0	0	0
Pre-tax profit	(2,898)	(4,153)	(1,648)	(374)	(193)	97
Income tax	1	2	1	0	0	(15)
After tax profit	(2,897)	(4,150)	(1,647)	(374)	(193)	83
Minority interest	(30)	(14)	(3)	(1)	(0)	0
Net profit	(2,867)	(4,136)	(1,644)	(373)	(192)	83
Adjusted net profit	(636)	(444)	(333)	(143)	62	363

BALANCE SHEET	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Current assets	1,533	2,282	2,248	2,625	2,909	3,550
Cash & equivalents	914	1,091	250	502	336	515
Account receivables	299	497	759	767	988	1,218
Inventories	59	111	225	228	309	401
Prepayment	260	420	468	581	728	869
Other current assets	0	163	548	548	548	548
Non-current assets	155	226	586	522	472	429
PP&E	24	36	137	109	94	87
Intangibles	111	165	327	292	256	221
Goodwill	19	26	86	86	86	86
Total assets	1,687	2,508	2,834	3,147	3,381	3,980
Current liabilities	5,068	9,644	884	1,339	1,511	1,747
Short-term borrowings	204	114	193	593	593	593
Account payables	76	68	121	158	258	397
Other current liabilities	4,603	9,005	111	128	200	298
Accrued expenses	185	457	460	460	460	460
Non-current liabilities	13	19	69	69	69	69
Obligations under finance leases	2	5	20	20	20	20
Other non-current liabilities	11	14	49	49	49	49
Total liabilities	5,081	9,663	953	1,408	1,580	1,816
Share capital	0	0	0	0	0	0
Capital surplus	(3,362)	(7,138)	1,849	1,707	1,770	2,132
Total shareholders equity	(3,362)	(7,138)	1,849	1,708	1,770	2,133
Minority interest	(31)	(17)	32	31	31	31
Total equity and liabilities	1,687	2,508	2,834	3,147	3,381	3,980

<b>CASH FLOW</b>	<b>2020A</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
<b>YE 31 Dec (RMB mn)</b>						
<b>Operating</b>						
Profit before taxation	(2,898)	(4,156)	(1,694)	(374)	(193)	97
Depreciation & amortization	35	87	102	144	130	123
Change in working capital	143	(140)	(360)	(69)	(278)	(227)
Others	2,281	3,543	1,295	241	271	282
<b>Net cash from operations</b>	<b>(438)</b>	<b>(666)</b>	<b>(657)</b>	<b>(58)</b>	<b>(69)</b>	<b>275</b>
<b>Investing</b>						
Capital expenditure	(41)	(89)	(80)	(80)	(80)	(80)
Acquisition of subsidiaries/ investments	(83)	(44)	0	0	0	0
Others	(37)	(23)	4	5	6	6
<b>Net cash from investing</b>	<b>(160)</b>	<b>(155)</b>	<b>(76)</b>	<b>(75)</b>	<b>(74)</b>	<b>(74)</b>
<b>Financing</b>						
Net borrowings	118	(106)	(461)	400	0	0
Proceeds from share issues	0	0	381	0	0	0
Others	800	1,122	(8)	(15)	(22)	(22)
<b>Net cash from financing</b>	<b>918</b>	<b>1,015</b>	<b>(88)</b>	<b>385</b>	<b>(22)</b>	<b>(22)</b>
<b>Net change in cash</b>						
Cash at the beginning of the year	601	914	1,091	250	502	336
Exchange difference	(7)	(17)	0	0	0	0
<b>Cash at the end of the year</b>	<b>914</b>	<b>1,091</b>	<b>270</b>	<b>502</b>	<b>336</b>	<b>515</b>
<b>GROWTH</b>	<b>2020A</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
<b>YE 31 Dec</b>						
Revenue	60.0%	109.4%	70.1%	44.1%	39.6%	34.6%
Gross profit	278.0%	144.9%	39.0%	52.5%	37.0%	33.8%
Adj. net profit	na	na	na	na	na	484.8%
<b>PROFITABILITY</b>	<b>2020A</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
<b>YE 31 Dec</b>						
Gross profit margin	27.7%	32.4%	26.5%	28.0%	27.5%	27.4%
Operating margin	(99.7%)	(39.5%)	(18.5%)	(8.3%)	(2.8%)	1.5%
Adj. net profit margin	(75.8%)	(25.3%)	(11.1%)	(3.3%)	1.0%	4.5%
Return on equity (ROE)	na	na	na	(21.0%)	(11.1%)	4.2%
<b>GEARING/LIQUIDITY/ACTIVITIES</b>	<b>2020A</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
<b>YE 31 Dec</b>						
Net debt to equity (x)	na	na	(0.1)	0.0	0.1	0.0
Current ratio (x)	0.3	0.2	2.5	2.0	1.9	2.0
Receivable turnover days	99.5	82.7	76.7	65.0	60.0	55.0
Inventory turnover days	60.6	26.2	27.9	26.9	25.9	24.9
Payable turnover days	38.7	22.1	15.7	18.7	21.7	24.7
<b>VALUATION</b>	<b>2020A</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
<b>YE 31 Dec</b>						
P/S	4.7	2.2	1.3	0.9	0.7	0.5

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

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## CMB International Global Markets Limited

**Address:** 45/F, Champion Tower, 3 Garden Road, Hong Kong. Tel: (852) 3900 0888 Fax: (852) 3900 0800

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