

EC Healthcare (2138 HK)

Rebound of cross-border consumption to fuel growth in FY24

EC Healthcare (ECH) expected the sales volume (i.e., contracted sales) to increase by no less than 24% YoY to HK\$3.8bn for FY23 (ended in Mar 2023), with +21%/ +27% YoY growth for FY1H23/ FY2H23, respectively. Specifically, sales volume of medical services maintained strong growth of 39% YoY in FY23 (+36%/ +41% YoY for FY1H23/ FY2H23); sales volume of aesthetic medical and wellness services in HK & Macau slightly grew by 4% YoY in FY23 (-9%/ +18% YoY for FY1H23/ FY2H23) while that in Mainland China declined by 25% in FY23 (-15%/ -34% YoY for FY1H23/ FY2H23). The sluggish sales volume growth in aesthetic medical and wellness services was caused by COVID disruptions in HK & Macau and Mainland. Based on the Company's announcement, sales volume showed continuous recovery by quarter, up by 21%/ 11%/ 5%/ 6% QoQ in FY1Q23/ FY2Q23/ FY3Q23/ FY4Q23, following a 19% QoQ decline in FY4Q22 due to COVID lockdowns in HK. As HK-Mainland border reopening has been fully resumed since 6 Feb 2023, we expect ECH business will directly benefit in FY24.

■ **Enhancing service capabilities to better capture consumption recovery opportunities from cross-border tourists.** Despite the harsh macro environment after pandemic outbreak, ECH has been persistently implementing its M&A strategy to diversify service portfolio in the past three years. Total M&A execution value amounted to HK\$641/ HK\$219mn in FY22/ FY1H23. ECH has now offered customers with more options on medical services, which accounted for 62% of total revenue in FY1H23, compared with only 28% in FY19. The enhanced services capabilities put ECH in a good position to meet diversified medical demand for cross-border customers. However, due to the relatively lower margin of medical service than aesthetic medical and wellness services, it is worth noted that overall margin of ECH in post-pandemic era will be different from that in pre-pandemic periods, due to the changing revenue mix.

■ **The HK-Mainland border reopening to support FY24 business growth.** The number of daily Mainland visitors substantially increased from 9,027 on average in Jan 2023 to 76,755 on average in Apr 2023. Note that the current daily number is still way lower than the pre-pandemic level, which was ~120,000 on average in 2019. We believe ECH will obviously benefit from HK-Mainland border reopening, given that 30-40% of ECH's total revenue were contributed from Mainland cross-border travellers before the pandemic, according to ECH's management. Due to the time needed to convert sales volume in revenue (typically 6-12 months), we see HK-Mainland border reopening to take effect for ECH starting from FY24, especially for its aesthetic medical and wellness services.

■ **Maintain BUY.** We revised our TP to HK\$8.48, based on a 10-year DCF model (WACC: 11.8%, terminal growth: 2.0%), to reflect lower net margin projections driven by revenue mix changes. We forecast ECH's revenue to grow 33%/ 26%/ 22% YoY and attributable net income to grow 1%/ 72%/ 52% YoY in FY23E/ 24E/ 25E, respectively.

Earnings Summary

(YE 31 Mar)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (HK\$ mn)	2,080	2,920	3,884	4,899	5,963
YoY growth (%)	6.8	40.3	33.0	26.1	21.7
Net profit (HK\$ mn)	192.9	197.5	198.6	340.7	518.8
YoY growth (%)	(32.7)	2.4	0.6	71.5	52.3
EPS (Reported) (HK\$)	0.19	0.17	0.17	0.29	0.44
Consensus EPS (HK\$)	na	na	0.18	0.33	0.46
P/E (x)	27.2	29.8	30.4	17.7	11.7

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price **HK\$8.48**

(Previous TP) **HK\$11.02**

Up/Downside **66.3%**

Current Price **HK\$5.10**

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Stock Data

Mkt Cap (HK\$ mn)	6,044.6
Avg 3 mths t/o (HK\$ mn)	12.6
52w High/Low (HK\$)	9.74/3.98
Total Issued Shares (mn)	1185.2

Source: FactSet

Shareholding Structure

Tang Chi Fai	61.3%
Goldman Sachs	5.5%

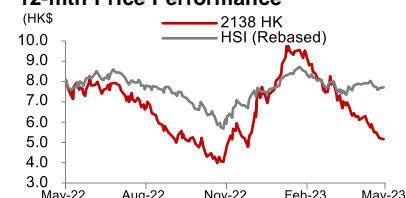
Source: HKEx

Share Performance

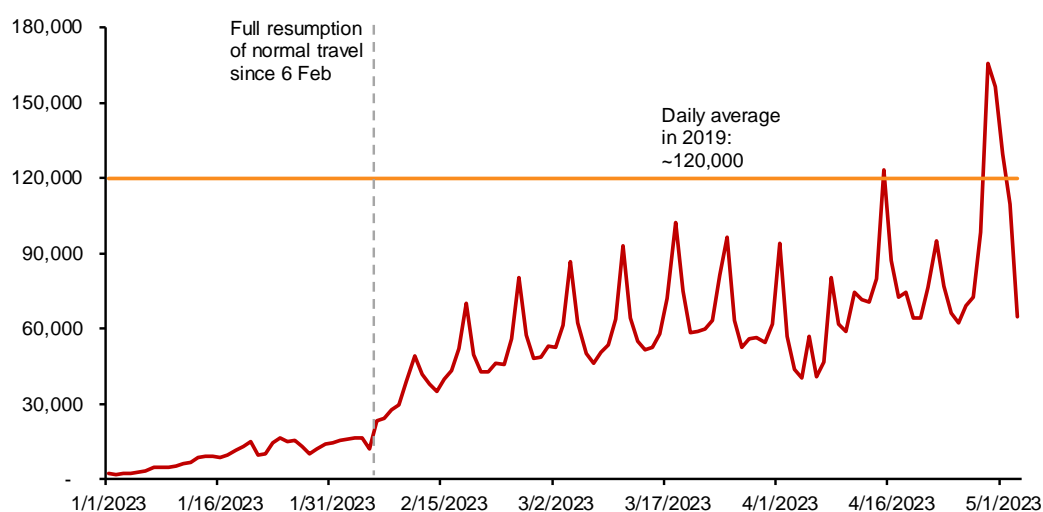
	Absolute	Relative
1-mth	-16.5%	-15.2%
3-mth	-44.8%	-40.1%
6-mth	4.9%	-15.0%

Source: FactSet

12-mth Price Performance



Source: FactSet

Figure 1: Number of daily Mainland visitors arriving HK

Source: Immigration Department of HK SAR, CMBIGM

Figure 2: Earnings revision

HK\$ mn	New			Old			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	3,884	4,899	5,963	3,884	5,036	6,133	0.0%	-2.7%	-2.8%
Gross Profit	3,367	4,286	5,248	3,387	4,472	5,489	-0.6%	-4.2%	-4.4%
Operating Profit	351	545	794	436	836	1,213	-19.6%	-34.8%	-34.6%
Net profit	199	341	519	260	543	811	-23.7%	-37.3%	-36.0%
EPS (HK\$)	0.17	0.29	0.44	0.22	0.46	0.69	-24.0%	-37.5%	-36.3%
Gross Margin	86.69%	87.50%	88.00%	87.20%	88.80%	89.50%	-0.51ppt	-1.30ppt	-1.50ppt
Operating Margin	9.03%	11.12%	13.31%	11.24%	16.59%	19.78%	-2.20ppt	-5.47ppt	-6.47ppt
Net Margin	5.11%	6.95%	8.70%	6.71%	10.79%	13.23%	-1.59ppt	-3.83ppt	-4.53ppt

Source: CMBIGM estimates

Figure 3: CMBIGM estimates vs consensus

HK\$ mn	CMBIGM			Consensus			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	3,884	4,899	5,963	3,807	4,791	5,799	2.0%	2.2%	2.8%
Gross Profit	3,367	4,286	5,248	3,331	4,010	4,070	1.1%	6.9%	28.9%
Operating Profit	351	545	794	474	718	956	-26.0%	-24.1%	-17.0%
Net profit	199	341	519	215	385	543	-7.5%	-11.5%	-4.4%
EPS (HK\$)	0.17	0.29	0.44	0.18	0.33	0.46	-7.9%	-11.6%	-4.8%
Gross Margin	86.69%	87.50%	88.00%	87.49%	83.70%	70.19%	-0.80ppt	+3.80ppt	+17.82ppt
Operating Margin	9.03%	11.12%	13.31%	12.45%	14.99%	16.49%	-3.42ppt	-3.87ppt	-3.19ppt
Net Margin	5.11%	6.95%	8.70%	5.64%	8.04%	9.36%	-0.53ppt	-1.08ppt	-0.66ppt

Source: Bloomberg, CMBIGM estimates

Figure 4: Valuation on risk-adjusted DCF valuation

DCF Valuation (in HK\$ mn)	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E
EBIT	359	545	794	901	1,013	1,130	1,248	1,367	1,483	1,594
Tax rate	15.2%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%
EBIT*(1-tax rate)	304	463	674	766	861	960	1,061	1,162	1,261	1,355
+ D&A	475	549	638	702	765	826	884	937	984	1,023
- Change in working capital	(138)	18	(35)	(38)	(42)	(45)	(48)	(51)	(54)	(56)
- Capex	(850)	(850)	(950)	(500)	(500)	(500)	(500)	(500)	(500)	(500)
FCFF	(209)	180	328	929	1,085	1,241	1,397	1,548	1,691	1,823
Terminal value										19,019
Terminal growth rate	2.0%									
WACC	11.8%									
Cost of Equity	15.0%									
Cost of Debt	5.0%									
Equity Beta	1.2									
Risk Free Rate	3.0%									
Market Risk Premium	10.0%									
Target Debt to Asset ratio	30.0%									
Effective Corporate Tax Rate	15.0%									
PV of terminal value (HK\$ mn)	6,248									
Total PV (HK\$ mn)	10,789									
Net debt (HK\$ mn)	218									
Minority interest (HK\$ mn)	520									
Equity value (HK\$ mn)	10,051									
# of shares (mn)	1,185									
Price per share (HK\$ per share)	8.48									

Source: CMBIGM estimates

Financial Summary

INCOME STATEMENT	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Mar (HK\$ mn)						
Revenue	1,949	2,080	2,920	3,884	4,899	5,963
Cost of goods sold	(216)	(235)	(350)	(517)	(612)	(716)
Gross profit	1,733	1,845	2,570	3,367	4,286	5,248
Operating expenses	(1,354)	(1,561)	(2,199)	(3,016)	(3,741)	(4,454)
Selling expense	(124)	(109)	(139)	(196)	(230)	(268)
Staff costs	(837)	(1,029)	(1,384)	(1,993)	(2,449)	(2,922)
Other rental related expenses	(43)	(48)	(61)	(80)	(98)	(119)
Others	(350)	(375)	(614)	(747)	(964)	(1,145)
Operating profit	378	285	371	351	545	794
Share of (losses)/profits of associates/JV	0	5	(1)	8	0	0
Net interest income/(expense)	(18)	(24)	(49)	(64)	(56)	(49)
Pre-tax profit	361	266	321	295	489	744
Income tax	(50)	(40)	(51)	(45)	(73)	(112)
After tax profit	310	226	271	250	415	633
Minority interest	24	33	73	51	75	114
Net profit	287	193	198	199	341	519
Gross dividends	227	172	170	159	256	389

BALANCE SHEET	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Mar (HK\$ mn)						
Current assets	1,052	1,415	1,516	1,931	1,980	2,057
Cash & equivalents	520	931	870	1,186	1,120	1,086
Account receivables	79	179	155	201	227	244
Inventories	60	40	101	104	123	144
Prepayment	189	191	215	266	336	408
Financial assets at FVTPL	111	3	2	2	2	2
Other current assets	93	71	172	172	172	172
Non-current assets	1,503	2,376	3,345	3,682	3,926	4,168
PP&E	725	792	1,193	1,310	1,403	1,474
Intangibles	115	512	692	646	588	519
Goodwill	155	477	709	709	709	709
Other non-current assets	507	595	751	1,017	1,226	1,466
Total assets	2,555	3,790	4,861	5,613	5,906	6,225
Current liabilities	1,069	1,317	1,363	1,325	1,458	1,533
Short-term borrowings	262	287	0	0	0	0
Account payables	159	215	315	277	409	485
Other current liabilities	488	607	730	730	730	730
Lease liabilities	161	207	319	319	319	319
Non-current liabilities	316	842	1,147	1,847	1,847	1,847
Convertible bonds	0	240	236	236	236	236
Obligations under finance leases	297	295	387	387	387	387
Other non-current liabilities	20	308	524	1,224	1,224	1,224
Total liabilities	1,386	2,160	2,510	3,172	3,305	3,380
Share capital	0	0	0	0	0	0
Capital surplus	1,003	1,269	1,881	1,921	2,006	2,136
Total shareholders equity	1,003	1,269	1,881	1,921	2,006	2,136
Minority interest	167	362	469	520	595	709
Total equity and liabilities	2,555	3,790	4,861	5,613	5,906	6,225

CASH FLOW	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Mar (HK\$ mn)						
Operating						
Profit before taxation	361	266	321	295	489	744
Depreciation & amortization	246	310	432	571	656	757
Tax paid	(65)	(54)	(67)	(45)	(73)	(112)
Change in working capital	14	80	(135)	(138)	18	(35)
Others	21	19	57	56	56	49
Net cash from operations	576	621	608	739	1,146	1,404
Investing						
Capital expenditure	(70)	(136)	(260)	(550)	(650)	(750)
Acquisition of subsidiaries/ investments	(112)	(353)	(347)	(300)	(200)	(200)
Net proceeds from disposal of short-term investments	499	108	0	0	0	0
Others	(0)	12	36	(50)	(50)	(50)
Net cash from investing	316	(369)	(571)	(900)	(900)	(1,000)
Financing						
Dividend paid	(352)	(130)	(322)	(159)	(256)	(389)
Net borrowings	145	609	0	700	0	0
Proceeds from share issues	3	107	530	0	0	0
Others	(536)	(429)	(308)	(64)	(56)	(49)
Net cash from financing	(739)	157	(100)	477	(312)	(438)
Net change in cash						
Cash at the beginning of the year	367	520	931	870	1,186	1,120
Exchange difference	0	2	2	0	0	0
Cash at the end of the year	520	931	870	1,186	1,120	1,086
GROWTH	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Mar						
Revenue	5.2%	6.8%	40.3%	33.0%	26.1%	21.7%
Gross profit	6.6%	6.5%	39.3%	31.0%	27.3%	22.4%
Operating profit	(15.8%)	(24.8%)	30.4%	(5.4%)	55.3%	45.6%
Net profit	(20.6%)	(32.7%)	2.4%	0.6%	71.5%	52.3%
PROFITABILITY	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Mar						
Gross profit margin	88.9%	88.7%	88.0%	86.7%	87.5%	88.0%
Operating margin	19.4%	13.7%	12.7%	9.0%	11.1%	13.3%
Return on equity (ROE)	28.0%	17.0%	12.5%	10.4%	17.3%	25.1%
GEARING/LIQUIDITY/ACTIVITIES	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Mar						
Net debt to equity (x)	0.2	(0.1)	(0.1)	0.1	0.1	0.1
Current ratio (x)	1.0	1.1	1.1	1.5	1.4	1.3
Receivable turnover days	17.2	22.6	20.9	18.9	16.9	14.9
Inventory turnover days	94.5	76.9	73.4	73.4	73.4	73.4
Payable turnover days	48.7	63.9	63.6	64.0	64.0	64.0
VALUATION	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Mar						
P/E	17.5	27.2	29.8	30.4	17.7	11.7
P/B	5.4	4.1	6.7	3.1	3.0	2.8
P/CFPS	9.4	8.3	20.6	8.2	5.3	4.3
Div yield (%)	4.2	3.3	1.4	2.6	4.2	6.4

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

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