

PA Good Doctor (1833 HK)

1H23E preview: Expecting Strategy 2.0 to gain momentum in post-pandemic periods

We expect PA Good Doctor (PAGD) to experience a revenue decline of 7.0% YoY in 1H23E, mainly taking into consideration its proactive reduction of low-synergy business with its Strategy 2.0 Continuum. However, we see the Company to continue to record positive progress on expanding its health management business for enterprise clients amid its strategic transition. We expect the Company to deliver good gross profit margin (GPM) improvements and cost savings in 1H23E as its Strategy 2.0 transition takes effect. We expect PAGD's business growth to turn positive starting from 2H23E, considering the post-pandemic business normalization and the growing penetration of online medical services in China healthcare industry.

■ **Macro economy normalization laying a solid foundation to execute Strategy 2.0 Continuum.** Different from individual customer acquisition, off-line visits are necessary and critical to win corporate customers. With the lift of COVID-related travel restrictions in China, we expect PAGD's off-line corporate customer acquisitions to fully resume to its normal pace in 2023. Recalling that, despite continuous business interruption caused by COVID control measures in 2022, PAGD still managed to grow the cumulative number of corporate clients to 978 as of Dec 2022 (vs 520 as of Dec 2021), indicating an increasing acceptance of PAGD's health management services among corporate clients which typically have strong purchasing power. Note that the number of corporate clients served by PAGD represented only ~3% of the total number of corporates clients within PA Group's business ecosystem, leaving ample room for further business expansion for PAGD. Thus, we expect the momentum of exploring business opportunities on enterprise clients to accelerate in 2023E and beyond.

■ **Margin improvements resulted from the changing revenue mix and cost savings under Strategy 2.0 Continuum.** The high-margin medical services accounted for 42.5% of PAGD's total revenue in 2H22, compared with 31.2% in 2021. GPM increased to 27.4% in 2H22 from 23.3% in 2021, due to the volume reduction of low-margin online mall business. Besides, we expect PAGD to have a better operating efficiency in next three years driven by inherent cost savings and economies of scale from providing health management services to corporate clients, contributing to the narrowing of adjusted net loss.

■ **Maintain BUY.** Our new TP of HK\$23.89 is based on a 10-year DCF model (WACC: 11.1%, terminal growth rate: 3.0%) to reflect our positive view on PAGD's leading position in China's online healthcare industry in long-term. We forecast PAGD's revenue to slightly decline by 1.3% YoY in 2023E and to regain positive growth of +12.6%/ +14.9% YoY in 2024E/ 2025E, respectively. To factor in margin improvements and cost savings brought by Strategy 2.0 Continuum, we model PAGD to narrow its adjusted net losses to RMB727mn/ RMB345mn/ RMB85mn in 2023E/ 24E/ 25E, respectively.

Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	7,334	6,160	6,078	6,846	7,869
YoY growth (%)	6.8	(16.0)	(1.3)	12.6	14.9
Adjusted net profit (RMB mn)	(1,417)	(848)	(727)	(345)	(85)
EPS (Adjusted) (RMB)	(1.29)	(0.78)	(0.65)	(0.31)	(0.08)
Consensus EPS (RMB)	na	na	(0.51)	(0.25)	0.05
P/S (x)	2.5	3.0	3.0	2.7	2.3

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price HK\$23.89

(Previous TP) HK\$24.24

Up/Downside 28.7%

Current Price HK\$18.56

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Stock Data

Mkt Cap (HK\$ mn)	20,765.2
Avg 3 mths t/o (HK\$ mn)	74.2
52w High/Low (HK\$)	31.65/13.70
Total Issued Shares (mn)	1118.8

Source: FactSet

Shareholding Structure

Ping An Insurance	39.4%
Sounda Properties	9.4%

Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-4.3%	-1.6%
3-mth	-7.9%	-0.8%
6-mth	-17.1%	-5.5%

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	6,078	6,846	7,869	6,922	7,859	8,989	-12.19%	-12.88%	-12.45%
Gross Profit	1,886	2,195	2,591	1,997	2,385	2,827	-5.56%	-7.93%	-8.33%
Operating Profit	-893	-517	-275	-872	-467	-239	n/m	n/m	n/m
Adjusted net profit	-727	-345	-85	-702	-288	-40	n/m	n/m	n/m
Adjusted EPS (RMB)	-0.65	-0.31	-0.08	-0.63	-0.26	-0.04	n/m	n/m	n/m
Gross Margin	31.02%	32.07%	32.93%	28.84%	30.34%	31.45%	+2.18ppt	+1.72ppt	+1.48ppt
Operating Margin	-14.69%	-7.55%	-3.49%	-12.59%	-5.94%	-2.66%	-2.09ppt	-1.61ppt	-0.83ppt
Adjusted net Margin	-11.96%	-5.04%	-1.09%	-10.14%	-3.66%	-0.44%	-1.82ppt	-1.38ppt	-0.65ppt

Source: CMBIGM estimates

Figure 2: CMBIGM estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	6,078	6,846	7,869	6,706	7,730	8,847	-9.36%	-11.43%	-11.05%
Gross Profit	1,886	2,195	2,591	1,946	2,359	2,823	-3.11%	-6.93%	-8.20%
Operating Profit	-893	-517	-275	-757	-457	-168	n/m	n/m	n/m
Adjusted net profit	-727	-345	-85	-560	-271	40	n/m	n/m	n/m
Adjusted EPS (RMB)	-0.65	-0.31	-0.08	-0.51	-0.25	0.05	n/m	n/m	n/m
Gross Margin	31.02%	32.07%	32.93%	29.02%	30.52%	31.91%	+2.00ppt	+1.55ppt	+1.02ppt
Operating Margin	-14.69%	-7.55%	-3.49%	-11.28%	-5.92%	-1.89%	-3.40ppt	-1.64ppt	-1.59ppt
Adjusted net Margin	-11.96%	-5.04%	-1.09%	-8.35%	-3.51%	0.46%	-3.61ppt	-1.53ppt	-1.54ppt

Source: CMBIGM estimates

Figure 3: Valuation on risk-adjusted DCF valuation

DCF Valuation (in RMB mn)	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E
EBIT	(933)	(557)	(315)	107	223	441	829	1,476	2,480	3,919
Tax rate	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
EBIT*(1-tax rate)	(933)	(557)	(315)	107	223	441	829	1,476	2,480	3,919
+ D&A	33	34	34	34	66	122	214	354	548	795
- Change in working capital	(38)	(111)	(26)	(26)	(51)	(95)	(166)	(274)	(424)	(615)
- Capex	(34)	(34)	(34)	(34)	(34)	(34)	(34)	(34)	(34)	(34)
FCFF	(971)	(668)	(341)	80	203	434	843	1,522	2,570	4,064
Terminal value										51,835

Terminal growth rate	3.0%
WACC	11.1%
Cost of Equity	14.0%
Cost of Debt	5.0%
Equity Beta	1.0
Risk Free Rate	3.0%
Market Risk Premium	11.0%
Target Debt to Asset ratio	30.0%
Effective Corporate Tax Rate	15.0%

Terminal value (RMB mn)	18,132
Total PV (RMB mn)	20,353
Net debt (RMB mn)	(3,699)
Minority interest (RMB mn)	(6)
Equity value (RMB mn)	24,058
# of shares (mn)	1,119
Price per share (RMB per share)	21.50
Price per share (HK\$ per share)	23.89

Source: CMBIGM estimates

Financial Summary

INCOME STATEMENT	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Revenue	6,866	7,334	6,160	6,078	6,846	7,869
Cost of goods sold	(5,002)	(5,627)	(4,475)	(4,193)	(4,651)	(5,278)
Gross profit	1,864	1,707	1,685	1,886	2,195	2,591
Operating expenses	(2,784)	(3,350)	(2,383)	(2,778)	(2,712)	(2,866)
Selling expense	(1,587)	(1,757)	(1,105)	(1,155)	(1,232)	(1,338)
Admin expense	(1,017)	(1,846)	(1,748)	(1,824)	(1,780)	(1,928)
Others	(180)	253	471	200	300	400
Operating profit	(919)	(1,643)	(698)	(893)	(517)	(275)
Share of (losses)/profits of associates/JV	(122)	(39)	(66)	(40)	(40)	(40)
Net Interest income/(expense)	100	159	156	125	123	131
Pre-tax profit	(941)	(1,524)	(608)	(808)	(434)	(184)
Income tax	(7)	(16)	(3)	0	0	0
After tax profit	(949)	(1,539)	(611)	(808)	(434)	(184)
Minority interest	(0)	(1)	(4)	(5)	(3)	(1)
Net profit	(948)	(1,538)	(608)	(804)	(432)	(183)
Adjusted net profit	(516)	(1,417)	(848)	(727)	(345)	(85)

BALANCE SHEET	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Current assets	15,256	12,757	12,464	12,432	12,479	13,198
Cash & equivalents	7,920	3,065	3,701	3,485	3,579	4,017
Account receivables	1,058	1,554	1,510	1,532	1,512	1,703
Inventories	160	398	246	322	302	335
Financial assets at FVTPL	3,566	4,937	5,090	5,090	5,090	5,090
Other current assets	2,551	2,803	1,917	2,003	1,997	2,054
Non-current assets	3,307	5,124	4,678	4,629	4,580	4,531
PP&E	166	140	111	112	113	114
Investment in JVs & assos	451	546	357	317	277	237
Intangibles	102	106	75	65	55	45
Goodwill	970	970	1,678	1,678	1,678	1,678
Other non-current assets	1,617	3,362	2,458	2,458	2,458	2,458
Total assets	18,563	17,881	17,142	17,061	17,059	17,729
Current liabilities	2,668	3,674	3,483	4,129	4,471	5,227
Short-term borrowings	0	0	0	500	1,000	1,500
Account payables	1,863	2,641	2,349	2,495	2,338	2,593
Other current liabilities	805	1,033	1,133	1,133	1,133	1,133
Non-current liabilities	39	121	201	201	201	201
Obligations under finance leases	39	121	103	103	103	103
Other non-current liabilities	0	0	97	97	97	97
Total liabilities	2,707	3,795	3,684	4,329	4,672	5,427
Share capital	0	0	0	0	0	0
Capital surplus	20,652	20,440	20,424	20,424	20,424	20,424
Retained earnings	(4,819)	(6,357)	(6,964)	(7,687)	(8,029)	(8,113)
Total shareholders equity	15,833	14,083	13,460	12,737	12,395	12,311
Minority interest	23	2	(1)	(6)	(8)	(9)
Total equity and liabilities	18,563	17,881	17,142	17,061	17,059	17,729

CASH FLOW	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	(949)	(1,539)	(611)	(808)	(434)	(184)
Depreciation & amortization	170	207	190	33	34	34
Change in working capital	(716)	145	50	(38)	(111)	(26)
Others	393	(216)	(439)	7	17	18
Net cash from operations	(1,102)	(1,403)	(811)	(806)	(495)	(158)
Investing						
Capital expenditure	(73)	(89)	(34)	(34)	(34)	(34)
Acquisition of subsidiaries/ investments	0	(2)	(626)	0	0	0
Net proceeds from disposal of short-term investments	(2,152)	(1,237)	87	0	0	0
Others	(272)	(1,773)	2,284	135	133	141
Net cash from investing	(2,497)	(3,100)	1,710	100	98	106
Financing						
Net borrowings	0	0	0	500	500	500
Proceeds from share issues	6,869	0	0	0	0	0
Share repurchases	0	(368)	(226)	0	0	0
Others	53	48	(92)	(10)	(10)	(10)
Net cash from financing	6,922	(320)	(318)	490	490	490
Net change in cash						
Cash at the beginning of the year	4,965	7,920	3,065	3,701	3,485	3,579
Exchange difference	(368)	(32)	54	0	0	0
Cash at the end of the year	7,920	3,065	3,701	3,485	3,579	4,017
GROWTH	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Revenue	35.5%	6.8%	(16.0%)	(1.3%)	12.6%	14.9%
Gross profit	59.2%	(8.5%)	(1.3%)	11.9%	16.4%	18.0%
PROFITABILITY	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Gross profit margin	27.2%	23.3%	27.3%	31.0%	32.1%	32.9%
Operating margin	(13.4%)	(22.4%)	(11.3%)	(14.7%)	(7.6%)	(3.5%)
Adj. net profit margin	(7.5%)	(19.3%)	(13.8%)	(12.0%)	(5.0%)	(1.1%)
Return on equity (ROE)	(7.4%)	(10.3%)	(4.4%)	(6.1%)	(3.4%)	(1.5%)
GEARING/LIQUIDITY/ACTIVITIES	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Net debt to equity (x)	(0.5)	(0.2)	(0.3)	(0.2)	(0.2)	(0.2)
Current ratio (x)	5.7	3.5	3.6	3.0	2.8	2.5
Receivable turnover days	45.4	65.0	90.8	90.8	90.8	90.8
Inventory turnover days	8.6	18.1	26.3	26.3	26.3	26.3
Payable turnover days	132.8	146.1	203.5	203.5	203.5	203.5
VALUATION	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
P/S	2.7	2.5	3.0	3.0	2.7	2.3

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

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