

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' 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**

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) 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%

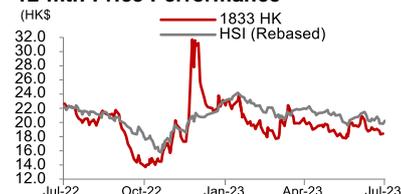
Source: HKEx

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.

Disclosures & Disclaimers

Analyst Certification

The research analyst who is primary responsible for the content of this research report, in whole or in part, certifies that with respect to the securities or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about the subject securities or issuer; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific views expressed by that analyst in this report.

Besides, the analyst confirms that neither the analyst nor his/her associates (as defined in the code of conduct issued by The Hong Kong Securities and Futures Commission) (1) have dealt in or traded in the stock(s) covered in this research report within 30 calendar days prior to the date of issue of this report; (2) will deal in or trade in the stock(s) covered in this research report 3 business days after the date of issue of this report; (3) serve as an officer of any of the Hong Kong listed companies covered in this report; and (4) have any financial interests in the Hong Kong listed companies covered in this report.

CMBIGM Ratings

BUY	: Stock with potential return of over 15% over next 12 months
HOLD	: Stock with potential return of +15% to -10% over next 12 months
SELL	: Stock with potential loss of over 10% over next 12 months
NOT RATED	: Stock is not rated by CMBIGM
OUTPERFORM	: Industry expected to outperform the relevant broad market benchmark over next 12 months
MARKET-PERFORM	: Industry expected to perform in-line with the relevant broad market benchmark over next 12 months
UNDERPERFORM	: Industry expected to underperform the relevant broad market benchmark over next 12 months

CMB International Global Markets Limited

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

CMB International Global Markets Limited ("CMBIGM") is a wholly owned subsidiary of CMB International Capital Corporation Limited (a wholly owned subsidiary of China Merchants Bank)

Important Disclosures

There are risks involved in transacting in any securities. The information contained in this report may not be suitable for the purposes of all investors. CMBIGM does not provide individually tailored investment advice. This report has been prepared without regard to the individual investment objectives, financial position or special requirements. Past performance has no indication of future performance, and actual events may differ materially from that which is contained in the report. The value of, and returns from, any investments are uncertain and are not guaranteed and may fluctuate as a result of their dependence on the performance of underlying assets or other variable market factors. CMBIGM recommends that investors should independently evaluate particular investments and strategies, and encourages investors to consult with a professional financial advisor in order to make their own investment decisions.

This report or any information contained herein, have been prepared by the CMBIGM, solely for the purpose of supplying information to the clients of CMBIGM or its affiliate(s) to whom it is distributed. This report is not and should not be construed as an offer or solicitation to buy or sell any security or any interest in securities or enter into any transaction. Neither CMBIGM nor any of its affiliates, shareholders, agents, consultants, directors, officers or employees shall be liable for any loss, damage or expense whatsoever, whether direct or consequential, incurred in relying on the information contained in this report. Anyone making use of the information contained in this report does so entirely at their own risk.

The information and contents contained in this report are based on the analyses and interpretations of information believed to be publicly available and reliable. CMBIGM has exerted every effort in its capacity to ensure, but not to guarantee, their accuracy, completeness, timeliness or correctness. CMBIGM provides the information, advices and forecasts on an "AS IS" basis. The information and contents are subject to change without notice. CMBIGM may issue other publications having information and/ or conclusions different from this report. These publications reflect different assumption, point-of-view and analytical methods when compiling. CMBIGM may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

CMBIGM may have a position, make markets or act as principal or engage in transactions in securities of companies referred to in this report for itself and/or on behalf of its clients from time to time. Investors should assume that CMBIGM does or seeks to have investment banking or other business relationships with the companies in this report. As a result, recipients should be aware that CMBIGM may have a conflict of interest that could affect the objectivity of this report and CMBIS will not assume any responsibility in respect thereof. This report is for the use of intended recipients only and this publication, may not be reproduced, reprinted, sold, redistributed or published in whole or in part for any purpose without prior written consent of CMBIGM.

Additional information on recommended securities is available upon request.

For recipients of this document in the United Kingdom

This report has been provided only to persons (I) falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended from time to time) ("The Order") or (II) are persons falling within Article 49(2) (a) to (d) ("High Net Worth Companies, Unincorporated Associations, etc.") of the Order, and may not be provided to any other person without the prior written consent of CMBIGM.

For recipients of this document in the United States

CMBIGM is not a registered broker-dealer in the United States. As a result, CMBIGM is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. The research analyst who is primary responsible for the content of this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA"). The analyst is not subject to applicable restrictions under FINRA Rules intended to ensure that the analyst is not affected by potential conflicts of interest that could bear upon the reliability of the research report. This report is intended for distribution in the United States solely to "major US institutional investors", as defined in Rule 15a-6 under the US, Securities Exchange Act of 1934, as amended, and may not be furnished to any other person in the United States. Each major US institutional investor that receives a copy of this report by its acceptance hereof represents and agrees that it shall not distribute or provide this report to any other person. Any U.S. recipient of this report wishing to effect any transaction to buy or sell securities based on the information provided in this report should do so only through a U.S.-registered broker-dealer.

For recipients of this document in Singapore

This report is distributed in Singapore by CMBI (Singapore) Pte. Limited (CMBISG) (Company Regn. No. 201731928D), an Exempt Financial Adviser as defined in the Financial Advisers Act (Cap. 110) of Singapore and regulated by the Monetary Authority of Singapore. CMBISG may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, as defined in the Securities and Futures Act (Cap. 289) of Singapore, CMBISG accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact CMBISG at +65 6350 4400 for matters arising from, or in connection with the report.