

# Joinn Laboratories (6127 HK)

## Maintaining strong growth momentum

Joinn reported 1Q23 revenue of RMB369mn, up 36% YoY, and attributable net income of RMB188mn, up 50% YoY. Revenue accounted for 12% of our full-year estimate, in line with its historical average, while attributable net income represented 18% of our full-year forecast, higher than its historical average. First quarter is usually the low season for Joinn. Net income from laboratory services, the core business of Joinn, increased by 34% YoY to RMB70mn in 1Q23. Gross profit margin in 1Q23 was flat YoY, despite the high price of research models. In the quarter, new orders signed by Joinn declined by 43% YoY to RMB570mn, due to negative impacts of COVID outbreaks in China in end 2022 and Jan 2023. New orders growth is improving on a monthly basis and the Company's BD team held an optimistic view on future orders growth. In Aug 2022, Joinn announced a new round of share-based compensation scheme, with the revenue CAGR target set at no lower than 35% during 2021-24E.

- **Enhancing order fulfilment capability to meet client demand.** To enhance order fulfilment, Joinn acquired two China-based leading suppliers of high-quality research models in 2022, adding a total livestock of more than 20,000 research models. Joinn has ranked among the top Chinese CXOs in terms of the number of high quality research models. Meanwhile, Joinn has been continuously expanding its lab facilities. Its 20,000 sq. m. Suzhou facilities is expected to be partially operational in Jul or Aug 2023. The infrastructure construction of Guangzhou facilities (18,000 sq m) has been completed and the interior renovation will be completed by end-2023. Considering the stable supply of research models and its expanding facilities, we expect Joinn will continue to enhance its leading position in China drug safety assessment (DSA) market.
- **Promising global market opportunities.** Biomere, Joinn's US subsidiary, delivered a solid performance in 1Q23. Additionally, large foreign DSA service providers in the US have been facing supply constraints of research models since late 2022. As such, Joinn, as a leading China-based DSA provider with stable supply of high-quality research models, is likely to benefit and win more off-shore orders. In 1Q23, request for proposals (RFPs) from off-shore outsourcing demand increased by 30-50% YoY, per management.
- **Operating cash flows to recover.** Operating cash flows turned to a net outflow of RMB14mn in 1Q23 from a net inflow of RMB75mn in 1Q22, due to the higher corporate tax paid based on the exceptional earnings growth in 2022 and the increasing staff cost driven by the growing employee number. Management guided operating cash flows to rebound from 2Q23.
- **Maintain BUY.** Our TP of HK\$50.42 is based on a 10-year DCF valuation with WACC of 10.7% and terminal growth of 3.0%. We forecast Joinn's revenue to grow 32.9%/ 35.0%/ 33.0% YoY and attributable net income to grow -0.6%/ 26.1%/ 28.3% YoY in FY23E/ 24E/ 25E, respectively.

### Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	1,517	2,268	3,014	4,067	5,410
YoY growth (%)	41.0	49.5	32.9	35.0	33.0
Net profit (RMB mn)	558	1,077	1,070	1,349	1,730
YoY growth (%)	78.3	93.0	(0.6)	26.1	28.3
EPS (Reported) (RMB)	1.51	2.02	2.00	2.52	3.23
Consensus EPS (RMB)	na	na	1.97	2.45	2.93
P/E (x)	17.0	12.7	12.8	10.2	7.9
Net gearing (%)	(76.6)	(52.6)	(52.1)	(51.7)	(52.8)

Source: Company data, Bloomberg, CMBIGM estimates

## BUY (Maintain)

**Target Price** HK\$50.42  
(Previous TP HK\$50.42)  
**Up/Downside** 67.2%  
**Current Price** HK\$30.15

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### Stock Data

Mkt Cap (HK\$ mn)	16,150.7
Avg 3 mths t/o (HK\$ mn)	25.5
52w High/Low (HK\$)	57.89/24.80
Total Issued Shares (mn)	535.7

Source: FactSet

### Shareholding Structure

Yuxia Feng & Zhiwen Zhou	33.5%
HK investors	17.8%

Source: HKEx

### Share Performance

	Absolute	Relative
1-mth	-0.7%	-1.2%
3-mth	-34.5%	-25.3%
6-mth	8.5%	-19.0%

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	3,014	4,067	5,410	3,014	4,067	5,410	0.00%	0.00%	0.00%
Gross Profit	1,422	1,899	2,508	1,422	1,899	2,508	0.00%	0.00%	0.00%
Operating Profit	931	1,277	1,734	931	1,277	1,734	0.00%	0.00%	0.00%
Attributable net profit	1,070	1,349	1,730	1,070	1,349	1,730	0.00%	0.00%	0.00%
EPS (RMB)	2.00	2.52	3.23	2.00	2.52	3.23	0.00%	0.00%	0.00%
Gross Margin	47.18%	46.70%	46.35%	47.18%	46.70%	46.35%	0ppt	0ppt	0ppt
Operating Margin	30.88%	31.40%	32.05%	30.88%	31.40%	32.05%	0ppt	0ppt	0ppt
Net Margin	35.51%	33.16%	31.98%	35.51%	33.16%	31.98%	0ppt	0ppt	0ppt

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	3,014	4,067	5,410	3,039	3,930	5,021	-0.83%	3.49%	7.75%
Gross Profit	1,422	1,899	2,508	1,484	1,934	2,435	-4.20%	-1.77%	2.96%
Operating Profit	931	1,277	1,734	1,230	1,461	1,803	-24.33%	-12.59%	-3.83%
Attributable net profit	1,070	1,349	1,730	1,045	1,289	1,568	2.40%	4.65%	10.33%
EPS (RMB)	2.00	2.52	3.23	1.97	2.45	2.93	1.20%	2.99%	10.38%
Gross Margin	47.18%	46.70%	46.35%	48.84%	49.20%	48.51%	-1.66ppt	-2.5ppt	-2.15ppt
Operating Margin	30.88%	31.40%	32.05%	40.47%	37.18%	35.91%	-9.59ppt	-5.78ppt	-3.86ppt
Net Margin	35.51%	33.16%	31.98%	34.39%	32.80%	31.23%	+1.12ppt	+0.37ppt	+0.75ppt

Source: Company data, Bloomberg, CMBIGM estimates

**Figure 3: DCF valuation for Joinn**

DCF Valuation (in RMB mn)	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E
EBIT	1,161	1,161	1,323	1,495	1,675	1,859	2,045	2,229	2,407	2,576
Tax rate	13.5%	13.5%	13.5%	13.5%	13.5%	13.5%	13.5%	13.5%	13.5%	13.5%
EBIT*(1-tax rate)	1,005	1,005	1,145	1,294	1,449	1,609	1,770	1,929	2,083	2,229
+ D&A	161	182	204	226	249	271	293	313	332	349
- Change in working capital	137	(29)	(33)	(36)	(40)	(43)	(47)	(50)	(53)	(56)
- Capx	(350)	(350)	(350)	(350)	(350)	(350)	(350)	(350)	(350)	(350)
<b>FCFF</b>	<b>952</b>	<b>807</b>	<b>966</b>	<b>1,134</b>	<b>1,308</b>	<b>1,487</b>	<b>1,666</b>	<b>1,842</b>	<b>2,012</b>	<b>2,172</b>
<b>Terminal value</b>										<b>28,962</b>
<b>Terminal growth rate</b>	<b>3.0%</b>									
<b>WACC</b>	<b>10.7%</b>									
Cost of Equity	13.5%									
Cost of Debt	5.0%									
Equity Beta	1.0									
Risk Free Rate	3.0%									
Market Risk Premium	10.5%									
Target Debt to Asset ratio	30.0%									
Effective Corporate Tax Rate	15.0%									
PV of terminal value (RMB mn)	10,456									
Total PV (RMB mn)	18,254									
Net debt (RMB mn)	(4,710)									
Minority interest (RMB mn)	6									
Equity value (RMB mn)	22,958									
# of shares (mn)	536									
Price per share (in RMB)	42.86									
<b>Price per share (in HK\$)</b>	<b>50.42</b>									

Source: CMBIGM estimates

## Financial Summary

INCOME STATEMENT	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Revenue	1,076	1,517	2,268	3,014	4,067	5,410
Cost of goods sold	(525)	(781)	(1,187)	(1,592)	(2,168)	(2,902)
Gross profit	551	736	1,081	1,422	1,899	2,508
Operating expenses	(275)	(328)	(396)	(491)	(622)	(774)
Selling expense	(13)	(16)	(18)	(24)	(33)	(43)
Admin expense	(211)	(264)	(300)	(362)	(447)	(541)
R&D expense	(51)	(48)	(78)	(105)	(142)	(189)
Operating profit	276	408	686	931	1,277	1,734
Gain/loss on financial assets at FVTPL	55	125	333	200	160	120
Net Interest income/(expense)	(4)	(4)	(4)	(4)	(4)	(4)
Other income/expense	32	113	228	108	123	146
Pre-tax profit	359	642	1,243	1,235	1,557	1,997
Income tax	(47)	(86)	(167)	(166)	(209)	(269)
After tax profit	312	557	1,076	1,069	1,348	1,728
Minority interest	(1)	(1)	(1)	(1)	(1)	(2)
Net profit	313	558	1,077	1,070	1,349	1,730
Gross dividends	95	137	214	214	270	346

  

BALANCE SHEET	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Current assets	1,183	5,814	5,928	6,549	7,740	9,351
Cash & equivalents	309	4,154	2,917	3,319	3,840	4,680
Account receivables	91	116	212	217	293	390
Inventories	91	106	350	306	417	558
Financial assets at FVTPL	306	841	1,480	1,680	1,840	1,960
Other current assets	386	597	970	1,026	1,350	1,763
Non-current assets	990	2,723	4,436	4,825	5,193	5,542
PP&E	646	815	1,235	1,436	1,616	1,777
Intangibles	63	57	50	38	26	14
Goodwill	125	122	134	134	134	134
Financial assets at FVTPL	84	180	946	946	946	946
Other non-current assets	72	1,549	2,071	2,271	2,471	2,671
Total assets	2,173	8,537	10,364	11,374	12,933	14,893
Current liabilities	774	1,214	1,844	1,999	2,480	3,058
Short-term borrowings	3	5	4	4	4	4
Account payables	60	54	127	121	165	221
Other current liabilities	696	1,134	1,689	1,850	2,287	2,809
Lease liabilities	15	22	24	24	24	24
Non-current liabilities	177	178	329	329	329	329
Long-term borrowings	21	5	3	3	3	3
Obligations under finance leases	53	64	57	57	57	57
Deferred income	67	61	81	81	81	81
Other non-current liabilities	35	48	188	188	188	188
Total liabilities	951	1,393	2,173	2,328	2,809	3,387
Share capital	227	381	536	536	536	536
Capital surplus	995	6,755	7,648	8,504	9,583	10,967
Total shareholders equity	1,223	7,136	8,184	9,040	10,119	11,503
Minority interest	(1)	8	7	6	5	3
Total equity and liabilities	2,173	8,537	10,364	11,374	12,933	14,893

<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	359	642	1,240	1,235	1,557	1,997
Depreciation & amortization	83	101	130	161	182	201
Tax paid	(33)	(42)	(167)	(166)	(209)	(269)
Change in working capital	52	98	(61)	137	(29)	(73)
Others	(23)	(115)	(320)	(196)	(156)	(116)
<b>Net cash from operations</b>	<b>438</b>	<b>685</b>	<b>822</b>	<b>1,170</b>	<b>1,344</b>	<b>1,740</b>
<b>Investing</b>						
Capital expenditure	(141)	(220)	(275)	(350)	(350)	(350)
Acquisition of subsidiaries/ investments	0	(26)	(1,689)	(200)	(200)	(200)
Others	(110)	(1,823)	0	0	0	0
<b>Net cash from investing</b>	<b>(251)</b>	<b>(2,069)</b>	<b>(1,964)</b>	<b>(550)</b>	<b>(550)</b>	<b>(550)</b>
<b>Financing</b>						
Dividend paid	(55)	(95)	(214)	(214)	(270)	(346)
Net borrowings	4	(4)	85	0	0	0
Proceeds from share issues	33	5,421	0	0	0	0
Others	(32)	(32)	(4)	(4)	(4)	(4)
<b>Net cash from financing</b>	<b>(50)</b>	<b>5,290</b>	<b>(132)</b>	<b>(218)</b>	<b>(273)</b>	<b>(350)</b>
<b>Net change in cash</b>						
Cash at the beginning of the year	177	305	4,154	2,917	3,319	3,840
Exchange difference	(9)	(61)	37	0	0	0
<b>Cash at the end of the year</b>	<b>305</b>	<b>4,150</b>	<b>2,917</b>	<b>3,319</b>	<b>3,840</b>	<b>4,680</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	68.3%	41.0%	49.5%	32.9%	35.0%	33.0%
Gross profit	67.5%	33.6%	47.0%	31.5%	33.6%	32.0%
Operating profit	58.3%	47.9%	68.2%	35.8%	37.2%	35.8%
Net profit	66.6%	78.3%	93.0%	(0.6%)	26.1%	28.3%
<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	51.2%	48.5%	47.7%	47.2%	46.7%	46.4%
Operating margin	25.6%	26.9%	30.2%	30.9%	31.4%	32.1%
Return on equity (ROE)	30.2%	13.3%	14.1%	12.4%	14.1%	16.0%
<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)	(0.2)	(0.8)	(0.5)	(0.5)	(0.5)	(0.5)
Current ratio (x)	1.5	4.8	3.2	3.3	3.1	3.1
Receivable turnover days	32.0	24.9	26.3	26.3	26.3	26.3
Inventory turnover days	48.8	46.1	70.2	70.2	70.2	70.2
Payable turnover days	32.8	26.6	27.8	27.8	27.8	27.8
<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/E	na	17.0	12.7	12.8	10.2	7.9
P/B	na	3.1	2.3	1.6	1.4	1.2
P/CFPS	na	32.6	23.2	12.2	10.6	8.2
Div yield (%)	na	0.6	1.1	1.5	1.9	2.4

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

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