

PA Good Doctor (1833 HK)

1H22E preview: pandemic hurt topline while second-half outlook remains solid

- Due to the COVID-19 pandemic in major cities in China in 1H22, we expect PA Good Doctor (PAGD) to suffer from a temporary revenue decline of 27% YoY in 1H22, which will lead to lower full-year revenue. However, we expect the Company to deliver impressive gross margin improvement by further reducing the low-margin transaction volume with Ping An Group. As a result, we forecast PAGD's revenue to decrease by 12% YoY in 2022E (vs our previous forecast of +6% YoY) with a net loss of RMB1,105mn in 2022E (vs our previous forecast of RMB1,193mn net loss). Assuming absence of large-scale COVID-19 outbreak in 2H22E and beyond, we see good chances for PAGD to regain revenue growth momentum.
- **COVID-19 pandemic in major cities interrupted PAGD's customer acquisition via off-line channel, which we expect to resume with the effective control of the pandemic.** PAGD introduced its Strategy 2.0 in late 2021 and switched customer acquisition strategy from individual consumer to corporate clients. Different from individual customer acquisition, off-line visits are necessary and critical to win corporate customers. PAGD's main targeted corporate customers are mid- to large-sized SOEs and private companies which are typically headquartered in major cities in China. Given many major cities took strict travel restrictions during the pandemic in 1H22, PAGD's off-line corporate customers acquisitions were forced to a pause. With the effective control of pandemic after June, we expect PAGD's off-line visits to clients to be fully resumed, a strong signal of business recovery in 2H22E.
- **Gross margin is set to see meaningful improvement in 2022E.** Low-margin connected transaction with Ping An Group amounted to RMB2,708mn in 2020 and RMB2,957mn in 2021, equivalent to 39%/40% of PAGD's total revenue, respectively. PAGD's management is actively reducing the transaction volume with Ping An Group. Thus, we expect to see a significant reduction in such transaction value in 2022E. Coupled with the continuous product sale mix optimization (i.e., switching to high-margin products from low-margin ones) and controllable cost associated with corporate customer acquisition, we expect PAGD's gross margin to improve by 3.4ppts to 26.7% in 2022E.
- **Maintain BUY.** Due to the impact from pandemic in 1H22, we forecast PAGD's revenue to change by -12%/ +23%/ +21% YoY with net losses of RMB1,105mn/ RMB898mn/ RMB293mn in FY22E/ 23E/ 24E. Our TP remained largely unchanged at HK\$28.30, based on a 10-year DCF model (WACC: 11.1%, terminal growth rate: 3.0%) to reflect PAGD's long-term growth prospect.

Earnings Summary

| (YE 31 Dec) | FY20A | FY21A | FY22E | FY23E | FY24E |
|---------------------|----------|----------|----------|----------|----------|
| Revenue (RMB mn) | 6,866 | 7,334 | 6,463 | 7,973 | 9,662 |
| YoY growth (%) | 36 | 7 | -12 | 23 | 21 |
| Net income (RMB mn) | (948) | (1,538) | (1,105) | (898) | (293) |
| EPS (RMB) | (0.92) | (1.39) | (0.99) | (0.80) | (0.26) |
| Consensus EPS (RMB) | | | (1.09) | (0.75) | (0.28) |
| P/S (x) | 3.2 | 3.0 | 3.4 | 2.8 | 2.3 |
| ROE | (7.4) | (10.3) | (8.3) | (7.4) | (2.5) |
| Net gearing (%) | Net cash | Net cash | Net cash | Net cash | Net cash |

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price **HK\$28.30**
 (Previous TP **HK\$28.57**)
 Up/Downside **+20.44%**
 Current Price **HK\$23.50**

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Stock Data

Mkt Cap (HK\$ mn) 26,292
 Avg 3 mths t/o (HK\$ mn) 143
 52w High/Low (HK\$) 88.30/15.18
 Total Issued Shares (mn) 1,119
 Source: Bloomberg

Shareholding Structure

Ping An Insurance 39.04%
 Management 8.54%
 Sounda Properties 9.37%
 HSBC 8.75%
 Morgan Stanley 7.09%
 Other shareholders 27.21%
 Source: HKEx, Company

Share Performance

| | Absolute | Relative |
|-------|----------|----------|
| 1-mth | 13.3% | 12.7% |
| 3-mth | 6.1% | 6.9% |
| 6-mth | -12.2% | -4.7% |

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: PWC

Related Reports

Figure 1: Earnings revision

| RMB mn | New | | | Old | | | Diff (%) | | |
|------------------|---------|---------|--------|---------|--------|--------|----------|----------|----------|
| | FY22E | FY23E | FY24E | FY22E | FY23E | FY24E | FY22E | FY23E | FY24E |
| Revenue | 6,463 | 7,973 | 9,662 | 7,741 | 9,564 | 11,607 | -16.51% | -16.64% | -16.75% |
| Gross Profit | 1,727 | 2,314 | 3,074 | 1,915 | 2,561 | 3,299 | -9.84% | -9.64% | -6.81% |
| Operating Profit | -1,093 | -904 | -299 | -1,241 | -823 | -165 | NA | NA | NA |
| Net profit | -1,105 | -898 | -293 | -1,193 | -812 | -159 | NA | NA | NA |
| EPS (RMB) | -0.99 | -0.80 | -0.26 | -1.06 | -0.72 | -0.14 | NA | NA | NA |
| Gross Margin | 26.72% | 29.03% | 31.81% | 24.74% | 26.78% | 28.42% | +1.98ppt | +2.25ppt | +3.39ppt |
| Operating Margin | -16.91% | -11.34% | -3.10% | -16.03% | -8.61% | -1.43% | -0.88ppt | -2.73ppt | -1.67ppt |
| Net Margin | -17.10% | -11.26% | -3.04% | -15.41% | -8.49% | -1.37% | -1.69ppt | -2.77ppt | -1.66ppt |

Source: Company data, CMBIGM estimates

Figure 2: CMBIGM estimates vs consensus

| RMB mn | CMBIGM | | | Consensus | | | Diff (%) | | |
|------------------|---------|---------|--------|-----------|---------|--------|----------|----------|----------|
| | FY22E | FY23E | FY24E | FY22E | FY23E | FY24E | FY22E | FY23E | FY24E |
| Revenue | 6,463 | 7,973 | 9,662 | 7,599 | 8,706 | 10,172 | -14.95% | -8.42% | -5.01% |
| Gross Profit | 1,727 | 2,314 | 3,074 | 1,862 | 2,290 | 2,873 | -7.29% | 1.03% | 7.00% |
| Operating Profit | -1,093 | -904 | -299 | -1,352 | -956 | -437 | NA | NA | NA |
| Net profit | -1,105 | -898 | -293 | -1,202 | -819 | -310 | NA | NA | NA |
| EPS (RMB) | -0.99 | -0.80 | -0.26 | -1.09 | -0.75 | -0.28 | NA | NA | NA |
| Gross Margin | 26.72% | 29.03% | 31.81% | 24.51% | 26.31% | 28.24% | +2.21ppt | +2.72ppt | +3.57ppt |
| Operating Margin | -16.91% | -11.34% | -3.10% | -17.79% | -10.98% | -4.30% | +0.88ppt | -0.36ppt | +1.20ppt |
| Net Margin | -17.10% | -11.26% | -3.04% | -15.82% | -9.40% | -3.05% | -1.28ppt | -1.86ppt | +0.01ppt |

Source: Company data, CMBIGM estimates

Figure 3: Valuation on risk-adjusted DCF valuation

| DCF Valuation (RMB mn) | 2022E | 2023E | 2024E | 2025E | 2026E | 2027E | 2028E | 2029E | 2030E | 2031E |
|---|----------------|----------------|--------------|------------|------------|------------|--------------|--------------|--------------|---------------|
| EBIT | (1,173) | (944) | (339) | 516 | 869 | 1,421 | 2,252 | 3,457 | 5,134 | 7,368 |
| Tax rate | 0.0% | 0.0% | 0.0% | 15.0% | 15.0% | 15.0% | 15.0% | 15.0% | 15.0% | 15.0% |
| EBIT*(1-tax rate) | (1,173) | (944) | (339) | 438 | 739 | 1,208 | 1,915 | 2,939 | 4,364 | 6,263 |
| + D&A | 42 | 55 | 64 | 70 | 118 | 194 | 307 | 471 | 699 | 1,003 |
| - Change in working capital | (192) | (79) | (101) | (153) | (257) | (420) | (666) | (1,023) | (1,519) | (2,179) |
| - Capex | (85) | (85) | (85) | (85) | (85) | (85) | (85) | (85) | (85) | (85) |
| FCFF | (1,408) | (1,053) | (462) | 271 | 515 | 896 | 1,470 | 2,302 | 3,460 | 5,002 |
| Terminal value | | | | | | | | | | 63,798 |
| 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) | | | | | | | | | | 22,317 |
| Total PV (RMB mn) | | | | | | | | | | 25,611 |
| Net debt (RMB mn) | | | | | | | | | | (1,306) |
| Minority interest (RMB mn) | | | | | | | | | | 2 |
| Equity value (RMB mn) | | | | | | | | | | 26,916 |
| # of shares (mn) | | | | | | | | | | 1,119 |
| Price per share (RMB per share) | | | | | | | | | | 24.06 |
| Price per share (HK\$ per share) | | | | | | | | | | 28.30 |

Source: CMBIGM estimates

Financial Summary

Income statement

| YE 31 Dec (RMB mn) | FY20A | FY21A | FY22E | FY23E | FY24E |
|--|--------------|----------------|----------------|--------------|--------------|
| Revenue | 6,866 | 7,334 | 6,463 | 7,973 | 9,662 |
| Medical services | 2,119 | 2,288 | 2,174 | 2,826 | 3,589 |
| Health services | 4,747 | 5,046 | 4,289 | 5,147 | 6,074 |
| Cost of sales | (5,002) | (5,627) | (4,736) | (5,659) | (6,588) |
| Gross profit | 1,864 | 1,707 | 1,727 | 2,314 | 3,074 |
| Selling & marketing | (1,587) | (1,757) | (1,486) | (1,674) | (1,739) |
| Administrative expenses | (1,017) | (1,846) | (1,583) | (1,794) | (1,884) |
| Other income | 205 | 275 | 250 | 250 | 250 |
| Other (losses)/gains | (385) | (22) | 0 | 0 | 0 |
| Operating profit | (919) | (1,643) | (1,093) | (904) | (299) |
| Finance costs - net | 100 | 159 | 67 | 46 | 46 |
| Gain/(loss) from associates and JV | (122) | (39) | (80) | (40) | (40) |
| Profit before tax | (941) | (1,524) | (1,106) | (898) | (294) |
| Income tax expense | (7) | (16) | 0 | 0 | 0 |
| Total net profit | (949) | (1,539) | (1,106) | (898) | (294) |
| Minority Interests | (0) | (1) | (1) | (1) | (0) |
| Profit attributable to shareholders | (948) | (1,538) | (1,105) | (898) | (293) |

Cash flow summary

| YE 31 Dec (RMB mn) | FY20A | FY21A | FY22E | FY23E | FY24E |
|------------------------------------|----------------|----------------|----------------|--------------|--------------|
| Profit before tax | (949) | (1,539) | (1,106) | (898) | (294) |
| D&A | 170 | 207 | 42 | 55 | 64 |
| Change in working capital | (716) | 145 | (192) | (79) | (101) |
| Others operating activities | 393 | (216) | 141 | 154 | 194 |
| Net cash fr. operating act. | (1,102) | (1,403) | (1,115) | (769) | (137) |
| Capex | (73) | (89) | (85) | (85) | (85) |
| Other investing activities | (2,424) | (3,011) | 77 | 56 | 56 |
| Net cash fr. investing act. | (2,497) | (3,100) | (8) | (29) | (29) |
| Net proceeds from shares | 6,869 | 0 | 0 | 0 | 0 |
| Bank borrowing | 0 | 0 | 500 | 500 | 500 |
| Payments for repurchase of shares | 0 | (368) | (500) | 0 | 0 |
| Other financing activities | 53 | 48 | (10) | (10) | (10) |
| Net cash fr. financing act. | 6,922 | (320) | (10) | 490 | 490 |
| Net change in cash | 3,323 | (4,823) | (1,132) | (308) | 324 |
| Cash at the beginning of the year | 4,965 | 7,920 | 3,065 | 1,932 | 1,624 |
| Cash at the end of the year | 7,920 | 3,065 | 1,932 | 1,624 | 1,948 |

Balance sheet

| YE 31 Dec (RMB mn) | FY20A | FY21A | FY22E | FY23E | FY24E |
|--------------------------------|---------------|---------------|---------------|---------------|---------------|
| Non-current assets | 3,307 | 5,124 | 5,062 | 5,027 | 4,983 |
| Goodwill | 970 | 970 | 970 | 970 | 970 |
| PP&E | 166 | 140 | 183 | 213 | 234 |
| Right-of-use assets | 115 | 197 | 197 | 197 | 197 |
| Financial assets at FV | 587 | 516 | 516 | 516 | 516 |
| Others | 1,468 | 3,301 | 3,196 | 3,131 | 3,066 |
| Current assets | 15,256 | 12,757 | 11,797 | 11,152 | 12,007 |
| Inventories | 160 | 398 | 463 | 389 | 465 |
| Trade receivables | 1,058 | 1,554 | 1,607 | 1,417 | 1,747 |
| Bank balances and cash | 7,920 | 3,065 | 1,932 | 1,624 | 1,948 |
| Others | 6,117 | 7,741 | 7,794 | 7,722 | 7,846 |
| Current liabilities | 2,668 | 3,674 | 4,154 | 4,239 | 5,168 |
| Short-term borrowings | 0 | 0 | 500 | 1,000 | 1,500 |
| Trade and other payables | 1,863 | 2,641 | 2,621 | 2,206 | 2,636 |
| Contract liabilities | 730 | 952 | 952 | 952 | 952 |
| Others | 75 | 80 | 80 | 80 | 80 |
| Non-current liabilities | 39 | 121 | 121 | 121 | 121 |
| Lease liabilities | 39 | 121 | 121 | 121 | 121 |
| Trade and other payables | 0 | 0 | 0 | 0 | 0 |
| Total net assets | 15,856 | 14,086 | 12,583 | 11,819 | 11,701 |
| Minority interest | 23 | 2 | 2 | 1 | 1 |
| Shareholders' equity | 15,833 | 14,083 | 12,582 | 11,819 | 11,700 |

Key ratios

| YE 31 Dec | FY20A | FY21A | FY22E | FY23E | FY24E |
|-------------------------------------|--------|--------|--------|--------|--------|
| Sales mix (%) | | | | | |
| Medical services | 30.9 | 31.2 | 33.6 | 35.4 | 37.1 |
| Health services | 69.1 | 68.8 | 66.4 | 64.6 | 62.9 |
| Total | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| Profit & loss ratios (%) | | | | | |
| Gross margin | 27 | 23 | 27 | 29 | 32 |
| EBITDA margin | (13) | (20) | (18) | (11) | (3) |
| Pre-tax margin | (14) | (21) | (17) | (11) | (3) |
| Net margin | (14) | (21) | (17) | (11) | (3) |
| Effective tax rate | (1) | (1) | 0 | 0 | 0 |
| Balance sheet ratios | | | | | |
| Current ratio (x) | 6 | 3 | 3 | 3 | 2 |
| Trade receivables turnover days | 45 | 65 | 80 | 80 | 80 |
| Trade payables turnover days | 133 | 146 | 170 | 170 | 170 |
| Net debt to total equity ratio (%) | Net | Net | Net | Net | Net |
| Returns (%) | | | | | |
| ROE | (7.4) | (10.3) | (8.3) | (7.4) | (2.5) |
| ROA | (6.1) | (8.4) | (6.4) | (5.4) | (1.8) |
| Per share value | | | | | |
| EPS (RMB) | (0.92) | (1.39) | (0.99) | (0.80) | (0.26) |
| DPS (RMB) | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| BVP (RMB) | 15.40 | 12.77 | 11.25 | 10.56 | 10.46 |

Source: Company data, CMBIGM estimates

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| | |
|-----------------------|---|
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